Economic and Fiscal Review

Province of Ontario

Ontario

Ministry of
Treasury and
Economics

November 1986

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Preface

The October 1985 discussion paper entitled "Reforming the Budget Process" outlined a number of proposals to enhance the Budget process by ensuring greater involvement of the public and Members of the Legislature. This Economic and Fiscal Review is part of the Government's efforts to improve the pre-budget discussions and consultative process, leading to the development of Ontario's annual Budget. In Spring, 1986, the Legislature set up the Standing Committee on Finance and Economic Affairs to "consider and report to the House its observations, opinions and recommendations on the fiscal and economic policies of the Province."

This Review has been prepared to assist the Committee, other members of the Legislature and the general public in deliberations and discussions on the forthcoming 1987 Ontario Budget.

The Ontario Economy: Performance and Prospects

Ontario Economic Outlook at a Glance

	1985	1986	1987
Real Growth (%)	4.7	4.1	3.6
Inflation (%)	4.0	4.0	3.5
Job Creation (000s)	159	156	114
Unemployment Rate (%)	8.0	7.0	6.7

In 1987, Ontario's labour force will grow to over five million people and the gross provincial product will exceed $200 billion.

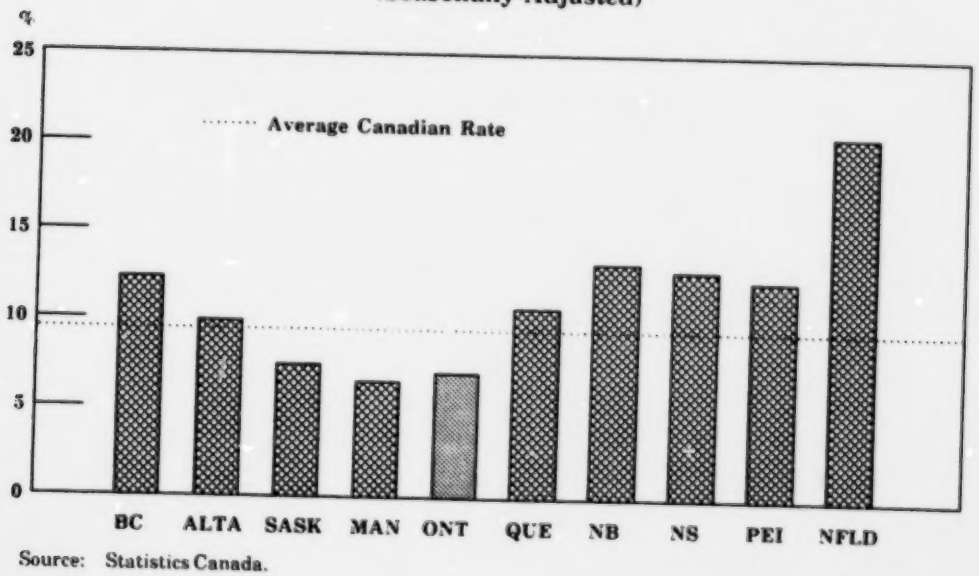
Recent Performance

The Ontario economy is now in its fourth consecutive year of growth following the 1981-1982 recession. That recession was brought on by a dramatic increase in real interest rates and the severe downturn in the U.S. economy. Consumer demand, especially for durable goods such as automobiles, dropped sharply, while businesses curtailed investment activity. The result was the deepest recession since the Great Depression of the 1930s.

Vigorous U.S. growth in 1983 and 1984 provided the initial engine for an export-led recovery. Ontario exports grew by about 38 per cent from 1982 to 1984, in large part due to higher automotive trade with the United States. In 1985, although U.S. economic growth slowed, Ontario's economy registered a third year of robust growth. The Ontario expansion became more broadly based, with domestic consumption and investment providing a greater contribution to overall economic growth.

Ontario's economy suffered more severely than other jurisdictions in the 1981-82 recession. Real output in Ontario declined, from the pre-recession peak to the trough, by 7.2 per cent compared to 6.6 per cent for Canada as a whole and 3.4 per cent for the United States. Equally significant is the fact that the recovery was particularly strong in Ontario. Throughout the expansion, Ontario's economy has experienced stronger growth than the rest of Canada. From 1982 to 1985, Ontario's real output grew by 18.7 per cent, compared to 13.1 per cent for Canada as a whole. Over the same period, Ontario's employment rose by 8.2 per cent, compared to 5.0 per cent in other parts of the country.

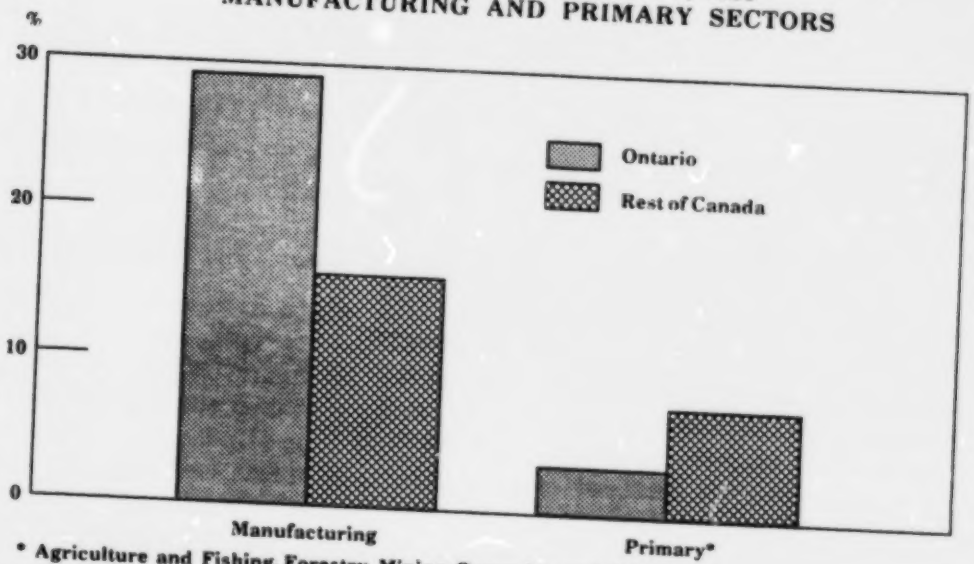
UNEMPLOYMENT RATES BY PROVINCE, SEPTEMBER 1986
(Seasonally-Adjusted)



Source: Statistics Canada.

Ontario's economy is more heavily oriented towards manufacturing and less to primary resource industries than is the rest of Canada. In large part, this orientation accounts for the relatively strong performance of the Ontario economy.

SHARES OF REAL OUTPUT, 1985
MANUFACTURING AND PRIMARY SECTORS

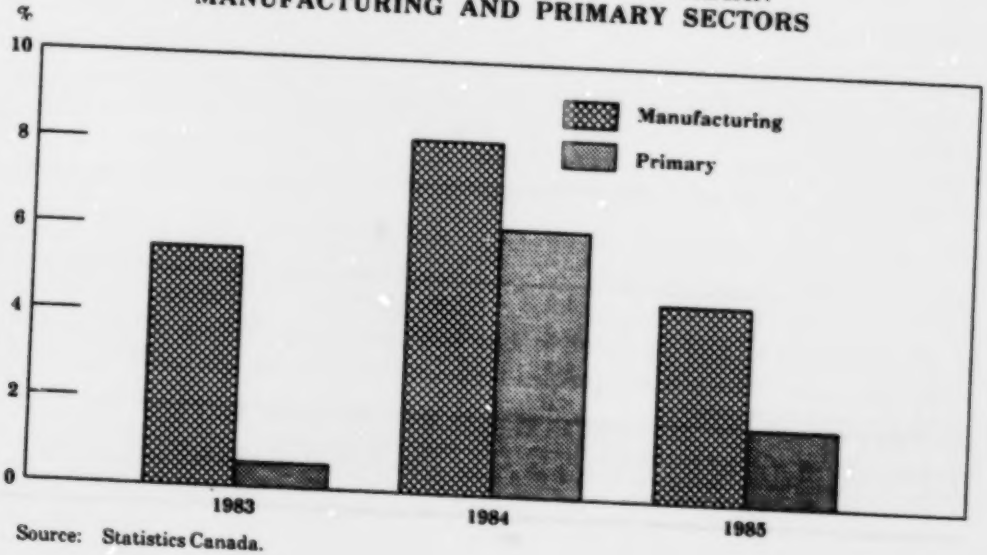


* Agriculture and Fishing, Forestry, Mining, Quarrying and Oil Wells

Source: Statistics Canada and Conference Board of Canada.

During the recovery, growth in manufacturing output, particularly automobile production, has outperformed that of primary industries.

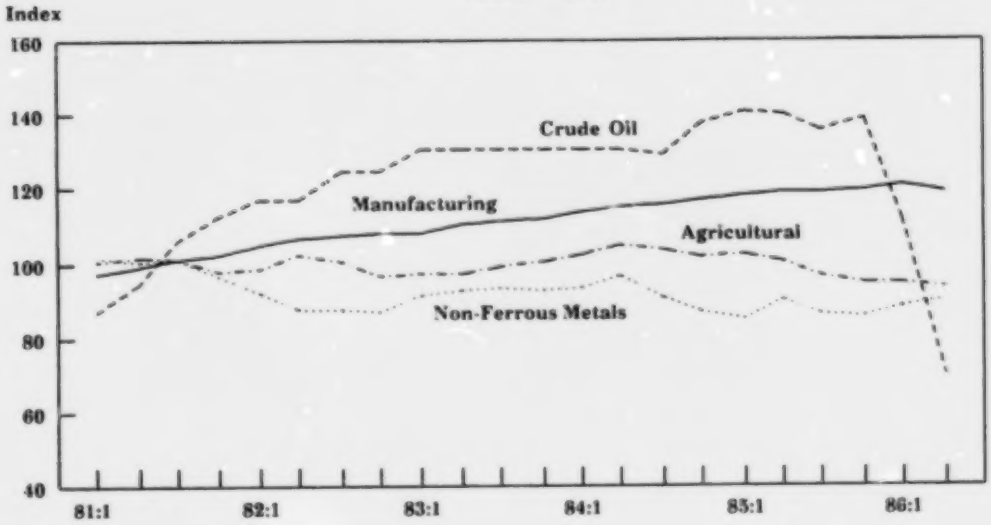
REAL OUTPUT GROWTH IN CANADIAN
MANUFACTURING AND PRIMARY SECTORS



Source: Statistics Canada.

The relative strength in manufacturing is also reflected in the performance of prices in that sector relative to those in the resource sector. Manufacturing prices increased by almost 20 per cent between 1981 and 1986. However, agricultural and metals prices drifted down. Crude oil prices, after rising steadily over the last five years, plummeted in the first half of this year.

MANUFACTURING, AGRICULTURAL, CRUDE OIL AND NON-FERROUS METALS PRICE INDICES
(1981 = 100)



Source: Statistics Canada.

Parts of Ontario or its economy have experienced adverse effects from the generally low commodity prices. For example, Northern Ontario is an important exception to the overall strength in the province's economic performance. Table 1 shows the unemployment rates by region since 1980.

Ontario Unemployment Rates by Region, 1980 to 1986 **Table 1**
(Per Cent)

	East	Central	South West	North East	North West	Ontario
1980	8.0	5.9	9.6	8.0	7.2	6.8
1982	9.2	9.1	11.4	14.8	10.3	9.8
1985	8.6	7.5	8.4	10.6	10.2	8.0
1986 (January-September)	8.0	6.5	7.3	11.1	11.3	7.2

Source: Statistics Canada and Ontario Ministry of Treasury and Economics.
Note: Due to changes in regional boundaries and survey methodology, pre-1984 data are not strictly comparable with later data.

Key Factors and Assumptions: 1986-1987

Ontario's economic performance is closely tied to external developments. The four most important are:

- economic growth, particularly in the United States, but also in Western Europe and Japan;
- economic growth in the rest of Canada and the fiscal actions of the federal government;
- federal monetary policy, changes in interest rates and foreign exchange rates; and
- the price of oil and natural gas.

The U.S. and World Economies

Exports to the United States account for about 35 per cent of Ontario's Gross Provincial Product (GPP). Accordingly, the health of the U.S. economy is vitally important to Ontario. Following a very rapid initial rebound during the first two years of the recovery, the American economy has settled into a pattern of slow growth. Moreover, despite the stimulus from lower oil prices and falling interest rates, the U.S. economy is expected to remain sluggish.

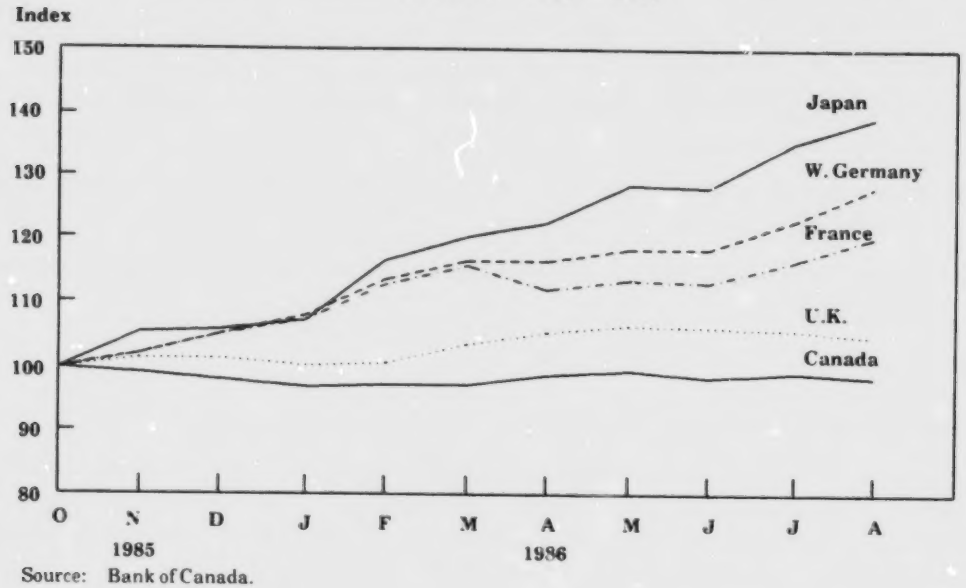
Burdened by a steadily mounting trade deficit, the U.S. economy grew at only a 2.5 per cent real annual rate over the first half of 1986. As a result of a modest pick-up in the second half of 1986, real growth of 2.7 per cent is expected for the year as a whole. While lower oil prices have spurred consumer spending, their short-run negative impacts have been large. Investment spending in the capital-intensive energy sector has collapsed and oil imports are up sharply. The stimulus from recent reductions in U.S. interest rates has been limited to the consumer; business spending is weak.

The trade sector remains the major source of weakness in the U.S. economy. However, there are positive signs. The U.S. dollar has depreciated significantly since the Group of Five (G-5) agreement on exchange rate realignment. For a number of reasons the initial impact has been to widen the trade deficit further this year, but the results of strengthened U.S. competitiveness are expected to be evident in 1987.

In addition to the currency corrections following the G-5 agreement, both West Germany and Japan will have to allow their economies to grow more quickly to absorb U.S. exports. Also, improvements in Third World debt arrangements would facilitate renewed growth of U.S. exports to these countries. This forecast assumes modest improvements on these fronts.

On balance, the U.S. trade performance is expected to improve in 1987; the trade deficit (measured in constant 1982 $) is expected to fall to about $100 billion from $130 billion in 1986.

U.S. DOLLAR EXCHANGE RATES OF MAJOR CURRENCIES
(October 1985 = 100)



Source: Bank of Canada.

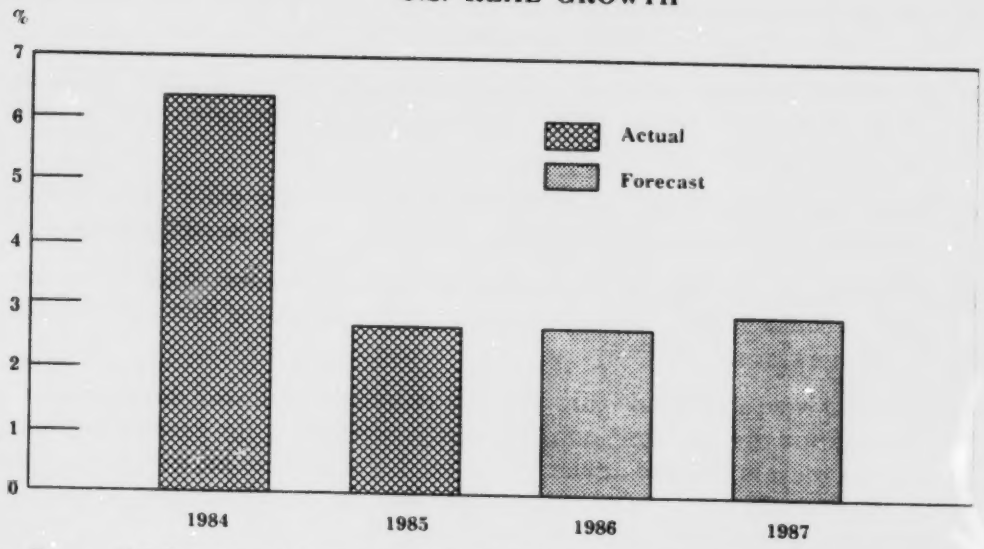
Slow economic growth is producing a record U.S. budget deficit, which is expected to reach close to $230 billion in the current fiscal year. U.S. fiscal policy is expected to become more restrictive in 1987, with or without precise adherence to Gramm-Rudman deficit reduction targets.

- Tax reform could withdraw as much as $11 billion from the economy in 1987, exacerbating the impact of government expenditure restraint on economic growth. In addition, the changes in U.S. tax law shift a greater share of the tax burden to businesses, especially those that are capital intensive. This will have an adverse impact on investment spending.

Monetary policy should continue to play a stimulative role in the economy, providing a partial offset to the trade deficit and tightening fiscal policy. Between January and October 1986, the Federal Reserve Board cut its trend-setting discount rate by 2.0 percentage points, bringing about a significant reduction in short-term interest rates. Further rate reductions are expected next year, providing an incentive to consumer and business spending.

Overall, modest improvement in the trade deficit coupled with further monetary accommodation should produce marginally stronger growth in 1987. Real GNP is forecast to grow at a 2.9 per cent rate. However, tighter fiscal policy and sluggish investment spending will act as impediments to a stronger performance.

U.S. REAL GROWTH



Source: U. S. Department of Commerce and Ontario Ministry of Treasury and Economics.

Continued moderate growth of the economies of other major industrial countries is expected. The current OECD forecast calls for Japanese growth of 3.25 per cent this year, followed by 3 per cent in 1987. The German economy is forecast to expand by 3.5 per cent this year and 3 per cent in 1987. The rest of OECD Europe is expected to achieve growth of 2.75 per cent in 1986 and 2.5 per cent next year.

The Canadian dollar has depreciated significantly against the currencies of Japan, West Germany and France. The recent depreciation of the dollar enhances the competitiveness of Ontario products, both in North American markets and overseas. The Canadian dollar exchange rate against major overseas currencies is not expected to vary significantly from current levels in the short term and thus will continue to contribute to the competitiveness of Canada's trade-sensitive industries. Continued economic growth in these countries should help to sustain Canada's export performance.

The Canadian Economy and Federal Economic Policy

Because of the strong trade links between Ontario and the other provinces, developments elsewhere in Canada have an important bearing on the performance of Ontario's economy. Although interprovincial trade is extremely difficult to measure, Ontario's exports of goods and services to other provinces may account for as much as 15-20 per cent of Gross Provincial Product.

The rest of Canada is expected to grow more slowly than Ontario over the forecast period. Nonetheless, real growth in the rest of Canada is expected to accelerate from 2.4 per cent in 1986 to 3.1 per cent in 1987. Including Ontario, Canadian real GDP is forecast to grow by 3.1 per cent this year and by 3.3 per cent in 1987.

- Canada's unemployment rate is forecast to drop from an annual average of 9.7 per cent in 1986 to 9.4 per cent in 1987.
- Depressed resource prices have dampened growth in the rest of Canada. Large declines in world oil prices have sharply curtailed investment in the oil and gas sector.
- Weak agricultural prices have restrained consumption and business investment in agricultural regions, especially in Western Canada.
- This year's buoyancy in the housing sector is expected to continue in 1987 because of pent-up demand and the possibility of further declines in mortgage rates.
- Export growth is weak this year in response to lower demand growth throughout the international economy, especially for resource products such as metals, oil and agricultural products. However, an improvement in the world's economic environment and modest increases in resource prices should lead to stronger export growth in 1987.

Federal fiscal policy is an important element in the economic outlook. In 1985, federal expenditures of $123 billion amounted to 25.7 per cent of Canada's GDP. Given the relative magnitude of these expenditures, changes in federal spending can have a profound impact on economic performance.

Similarly, federal fiscal policy can affect economic activity through taxation. In 1985, federal revenues, including investment income and CPP contributions, amounted to $92.3 billion or 19.4 per cent of Canadian GDP.

It is assumed for the forecast that the federal government will not alter the fiscal policy stance as announced in the February 1986 budget and reaffirmed in the September statement by the Minister of Finance.

- In the current forecast it is assumed that federal tax and expenditure policies do not change in the 1987-88 fiscal year.

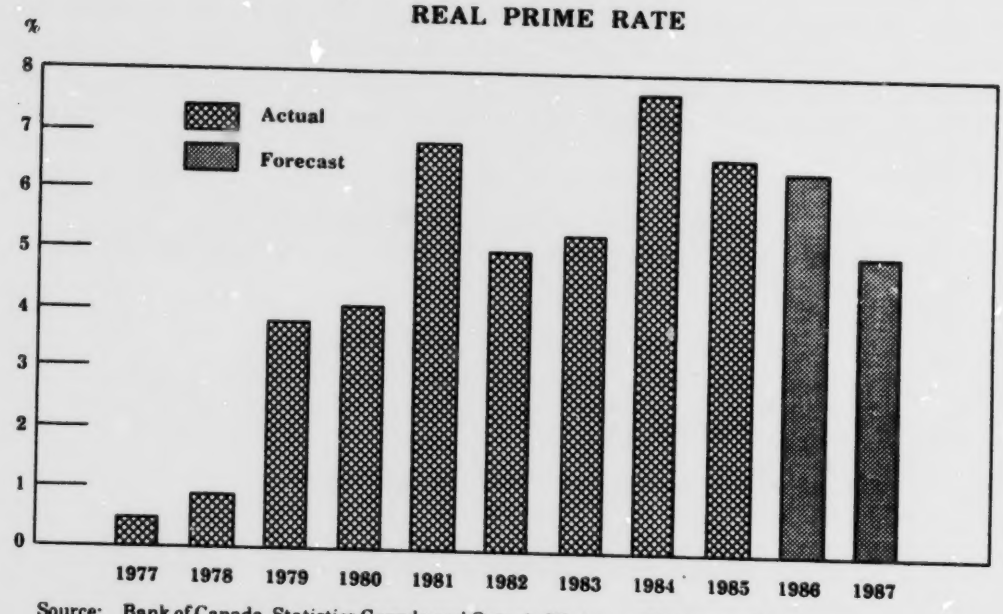
Interest Rates and Exchange Rates

Interest rates are a key determinant of demand for housing, consumer durables and business investment. Recently, interest rates have been declining. After rising to 13 per cent in February 1986, the prime rate fell to 9.75 per cent in July, its lowest level in eight years.

Nominal interest rates are expected to decline further over the forecast horizon. By the end of 1987, the prime rate is expected to decline to 8.5 per cent. This is in line with the expectation of continuing low domestic inflation and further discount rate cuts in the U.S.

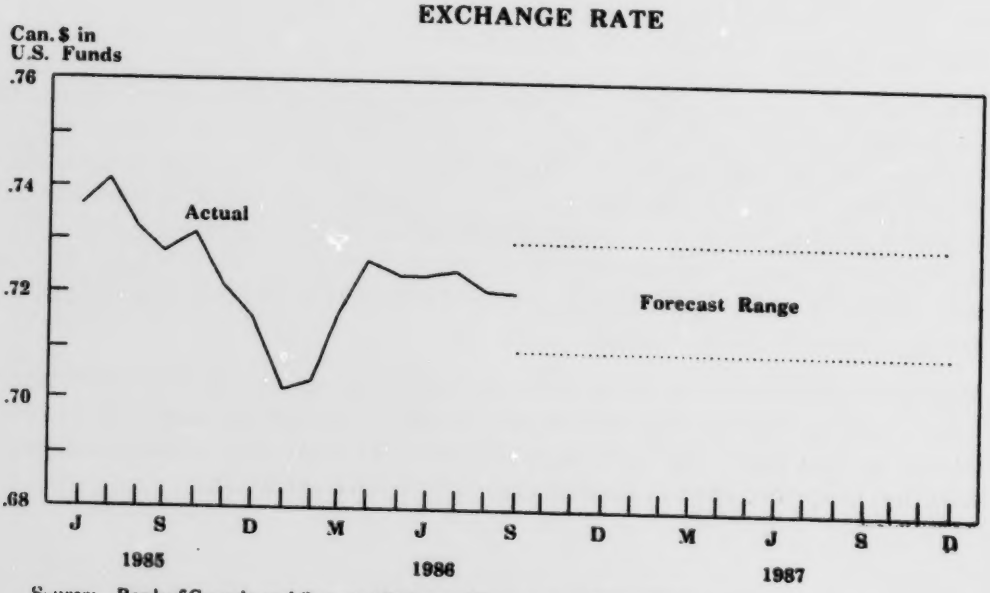
Spending is also greatly affected by real interest rates -- that is, nominal interest rates minus the rate of inflation. Real rates have been very high in the 1980s relative to earlier periods. In 1984, the real prime rate was over 7.5 per cent. Given an expected 3.5 per cent rate of inflation, the real prime

rate is expected to fall to 5.0 per cent in 1987. This represents an important stimulus to growth in spending.



Source: Bank of Canada, Statistics Canada and Ontario Ministry of Treasury and Economics.

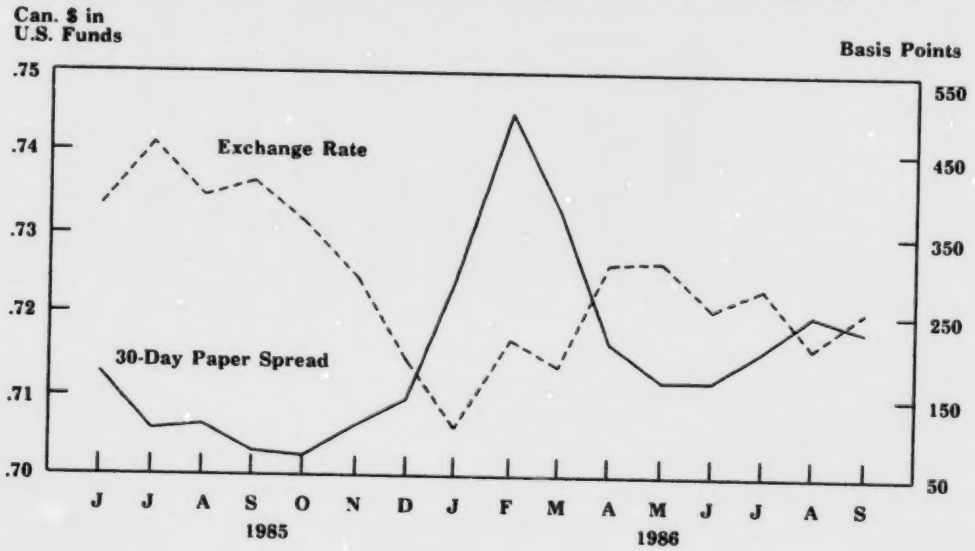
The movement of interest rates in Canada depends in part on the Bank of Canada's decisions with respect to monetary and exchange rate policies. The Bank of Canada is expected to continue to support the Canadian dollar in the 71-73 cents U.S. range by maintaining, on average, a 100-200 basis point differential between Canadian and U.S. short-term interest rates.



Source: Bank of Canada and Ontario Ministry of Treasury and Economics.

The forecast interest rate differential represents a significantly narrower spread than earlier in 1986. At that time, the Bank intervened to support the dollar and raised the interest rate differential to over 500 basis points. This forecast does not anticipate future downward pressure on the Canadian dollar. However, were this to happen, the Bank of Canada would likely once again support the dollar through direct intervention in foreign exchange markets and a widening of Canada-U.S. interest rate spreads. The growth of the Canadian economy would be affected negatively by higher interest rates.

CANADA - U.S. EXCHANGE RATE AND THE
CANADA - U.S. SHORT-TERM INTEREST RATE DIFFERENTIAL



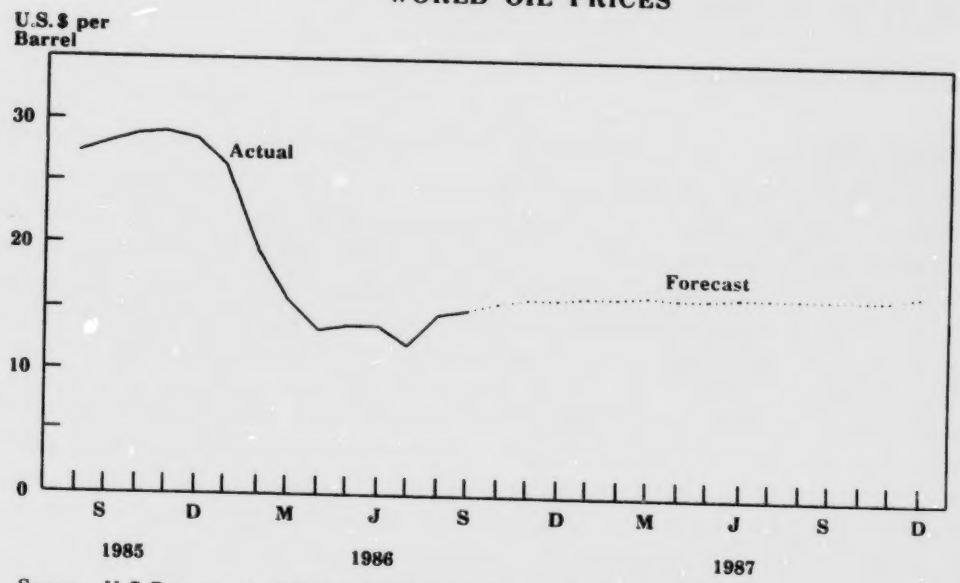
Source: Bank of Canada.

Energy Prices

Over the past decade, sharply higher real petroleum prices led to reductions in demand and the development of alternative sources of energy supply, reducing OPEC's share of world markets and eroding its power to determine prices unilaterally. However, at the end of 1985, in a bid to restore control, Saudi Arabia sharply increased its oil output. This triggered a collapse of world prices from about $28 (U.S.) per barrel at the time to under $10 per barrel in mid-1986. OPEC's agreement in August 1986 to lower output has led again to a firming in prices.

Volatile world oil markets have introduced a large element of uncertainty into economic forecasting. However, world oil prices are expected to reach $16 (U.S.) per barrel by the end of the year. In 1987 and subsequent years, nominal oil prices are assumed to rise in line with inflation.

WORLD OIL PRICES



Source: U. S. Department of Energy and Ontario Ministry of Treasury and Economics.

- The key assumption underlying the expected firming of oil prices is that OPEC's agreement to limit its production will prove durable.

Ontario's oil bill in 1985 was $6.7 billion. The decline in the price of oil to $16 U.S./barrel in 1986 lowers the annual outlay by $2.6 billion. This is an important stimulus to economic activity in Ontario.

Natural gas prices are also falling due to the competitive pressures from refined oil products and government steps to deregulate natural gas markets. Large industrial users of gas have already been able to obtain price reductions of 15 to 30 per cent and lower prices for other gas users are being negotiated. Ontario's wholesale gas bill of $2.8 billion is likely to be reduced by about $500 million annually.

While lower oil prices provide a net stimulus to the Ontario economy, the decline in oil prices has had an adverse effect on growth in the oil-producing regions of Canada. Investment in the energy sector has been particularly hard hit, adversely affecting the demand for some Ontario goods. Similarly, lower oil prices have weakened energy investment in the U.S. and economic performance in its oil-producing regions. This weakens Ontario's exports to those markets as well.

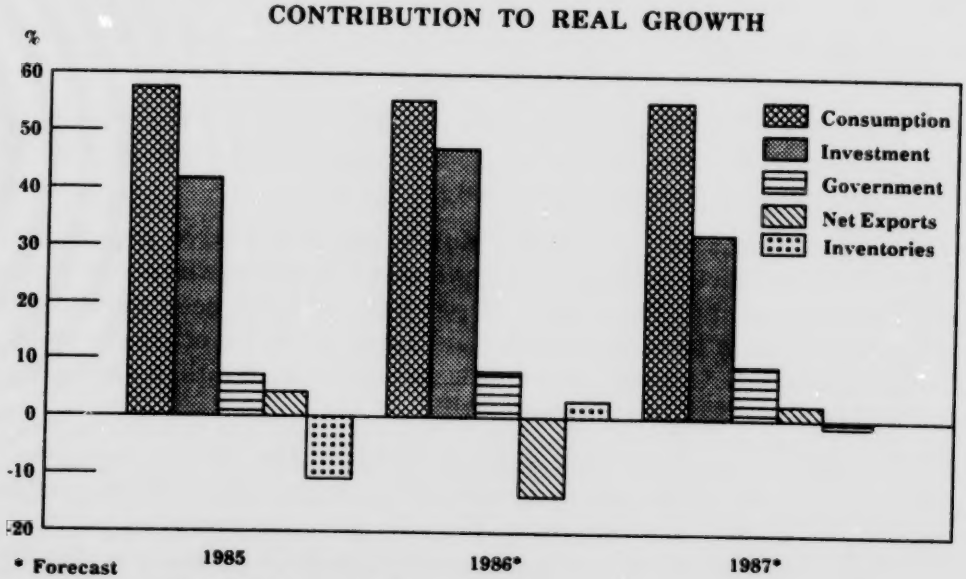
Short-Term Outlook: 1986-1987

Sources of Growth

Overview

The Ontario economy is expected to grow in real terms by 4.1 per cent in 1986 and 3.6 per cent in 1987. In terms of current dollars, the increase of nominal GPP is forecast at 7.1 per cent in 1986 and 6.7 per cent next year. Increases in consumer demand account for over half of the growth in real output in both years. Investment, primarily in residential construction and in machinery and equipment, is expected to generate over 40 per cent of the real growth in output in 1986 and over 30 per cent in 1987. Total government spending will provide a modest additional stimulus to the economy in 1987. After making a small contribution in 1986, inventory accumulation is not expected to be a source of growth in 1987. Net exports will be a drag on growth in 1986 as the increase in imports outpaces the gain in exports. In 1987, the trade position is expected to stabilize with net exports making a small positive contribution to growth.

CONTRIBUTION TO REAL GROWTH



Source: Ontario Ministry of Treasury and Economics.

Consumer Demand

Consumer spending, which represents over half of aggregate spending, will be the main contributor to sustained expansion. In particular, the consumption of durables will remain robust. Personal expenditures on all goods and services are forecast to grow by 4.1 per cent and 3.7 per cent in real terms during 1986 and 1987 respectively.

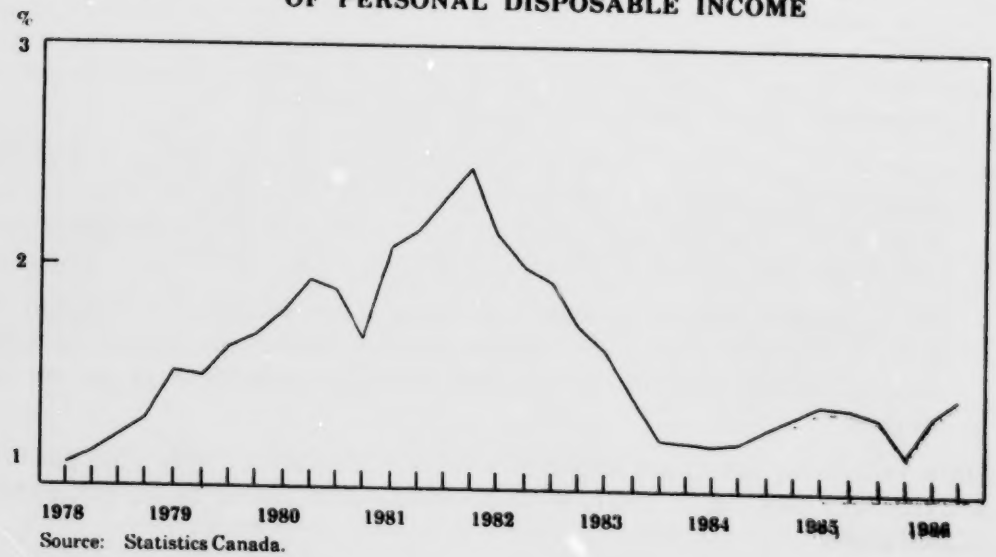
Due to low inflation, declining unemployment and falling interest rates, consumer confidence is expected to remain firm. This is particularly true for Ontario since it is much less vulnerable than other parts of Canada to the

negative side effects of low oil and commodity prices. According to the 1986 summer consumer survey by the Conference Board of Canada, the Ontario index of consumer attitudes climbed to 132.4 in the second quarter of 1986, up from 121.1 in the first quarter.

There are a number of factors that will influence consumer expenditures in the short term:

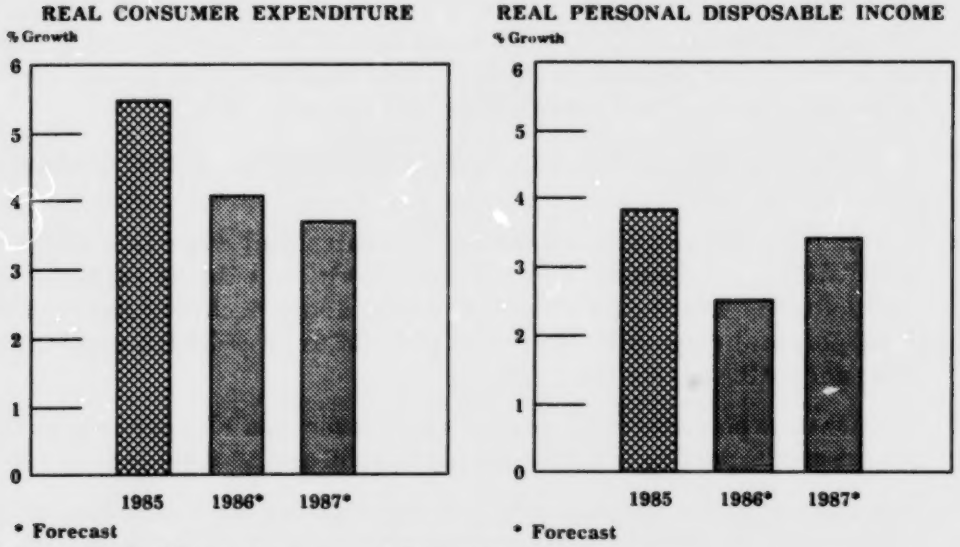
- There will be a modest deceleration in nominal personal income growth, to 7.8 per cent in 1986, down from 8.2 per cent in 1985. This reflects the impact of a decrease in deposit rates on interest income and a higher concentration of job creation in the lower-paying service sector. Growth in personal income will slow further to 7.3 per cent in 1987.
- Real personal income will continue to rise, posting a 3.7 per cent gain in both 1986 and 1987.
- The higher federal personal income tax rates that came into effect this year will tend to dampen expenditure growth, but this is expected to be cushioned by the impact of low oil prices and a declining savings rate. Real personal disposable income is forecast to grow by 2.5 per cent this year and by 3.4 per cent in 1987.
- The Ontario personal savings rate, which averaged 17.2 per cent in 1985, is expected to decline to 15.9 per cent in 1986 and 15.6 per cent in 1987.
- A strong housing market, along with declining interest rates, should sustain robust demand for consumer durables such as furniture and appliances.
- With credit interest payments remaining relatively moderate as a per cent of personal disposable income, consumers are in a good position to take on more debt.

CREDIT INTEREST PAYMENTS AS A SHARE OF PERSONAL DISPOSABLE INCOME



Source: Statistics Canada.

Retail sales, which represent about 45 per cent of personal consumption on goods and services, are forecast to grow by 8.1 per cent this year and by 7.0 per cent next year. Significant gains are occurring in sales of household appliances, furniture and home entertainment products. The strong growth in sales of these particular goods is due, to a significant extent, to the buoyant housing market.



Source: Ontario Ministry of Treasury and Economics.

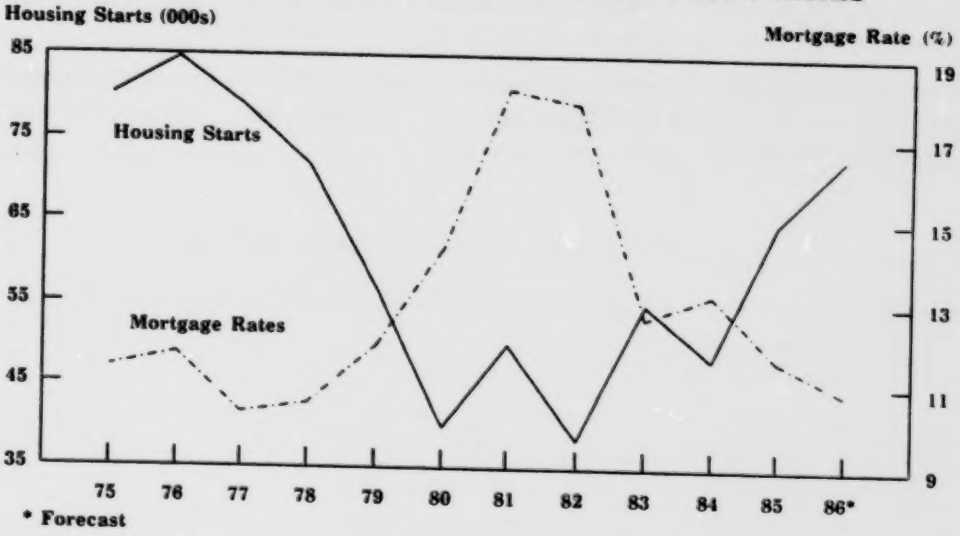
Housing

Buoyancy in the housing sector will persist for the remainder of 1986 and continue into 1987. Residential construction, which includes renovation activity, is expected to be a major contributor to growth. Accordingly, residential investment is expected to climb by over 20 per cent in 1986 and grow at a somewhat slower rate of 13.5 per cent in 1987. Falling mortgage interest rates, pent-up demand from the earlier period of record-high interest rates and the expectation of further significant housing price increases have led to a surge of buying in Ontario.

- Over the first eight months of 1986, housing prices for new homes in Kitchener-Waterloo and Metro Toronto rose 16.0 and 12.6 per cent, respectively, from last year, while housing starts for Kitchener-Waterloo and Metro Toronto rose 47.5 and 27.9 per cent, respectively.
- Shortages of materials and skilled labour have delayed construction of many new homes until 1987. The shortage of new homes, combined with delayed closing dates in that market, has spurred growth in the resale market.

Ontario housing starts are expected to reach 73,000 for 1986. The pace of activity will pick up in 1987, with housing starts rising to an estimated 77,000 units.

ONTARIO HOUSING STARTS AND MORTGAGE RATES



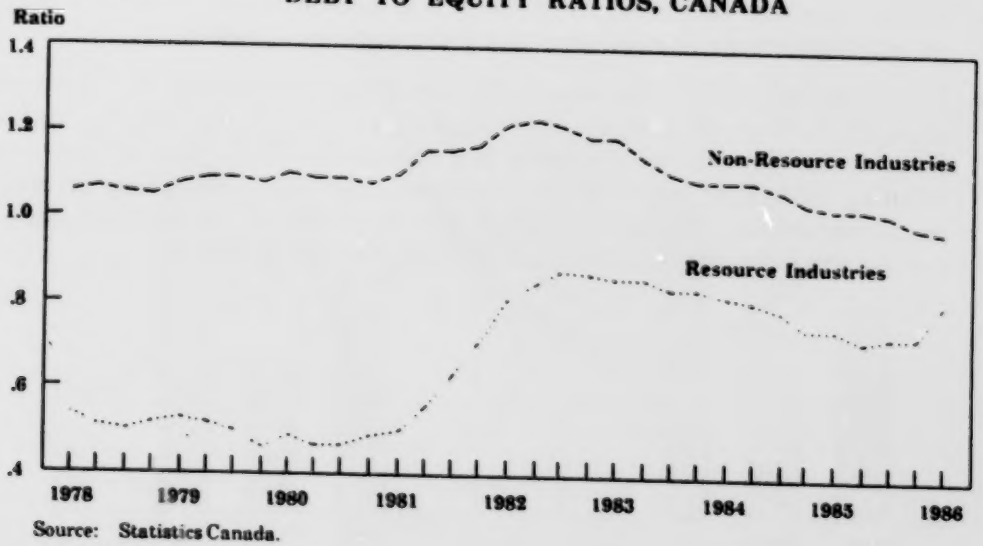
Source: Canada Mortgage and Housing Corporation.

Business Investment

Business investment in plant and equipment is expected to be a major contributor to growth in Ontario in both 1986 and 1987. A strong competitive position, improvements in corporate balance sheets since the recession, the recovery of corporate profits, improved business confidence in the sustained expansion of the economy and declining interest rates have combined to create a very favourable climate for investment.

Corporate profits are forecast to grow by 7.5 per cent in 1986 and a further 6.1 per cent in 1987.

DEBT TO EQUITY RATIOS, CANADA

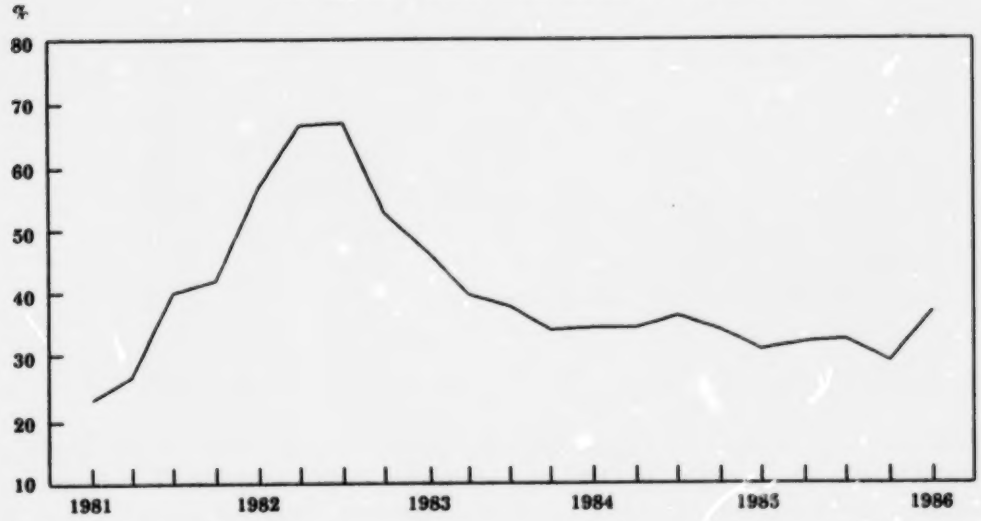


Source: Statistics Canada.

The recovery of profits, the reduction in debt payments due to lower interest rates, and the rapid fall in inflation have led to an improvement in the health of the corporate sector. Debt to equity ratios have fallen more quickly in the non-resource sector than in the resource sector.

Simultaneously, the interest service ratio, which reflects interest payments as a percentage of cash flow, has been falling because of improvements in corporate incomes and lower debt charges.

INTEREST SERVICE RATIO, CANADA

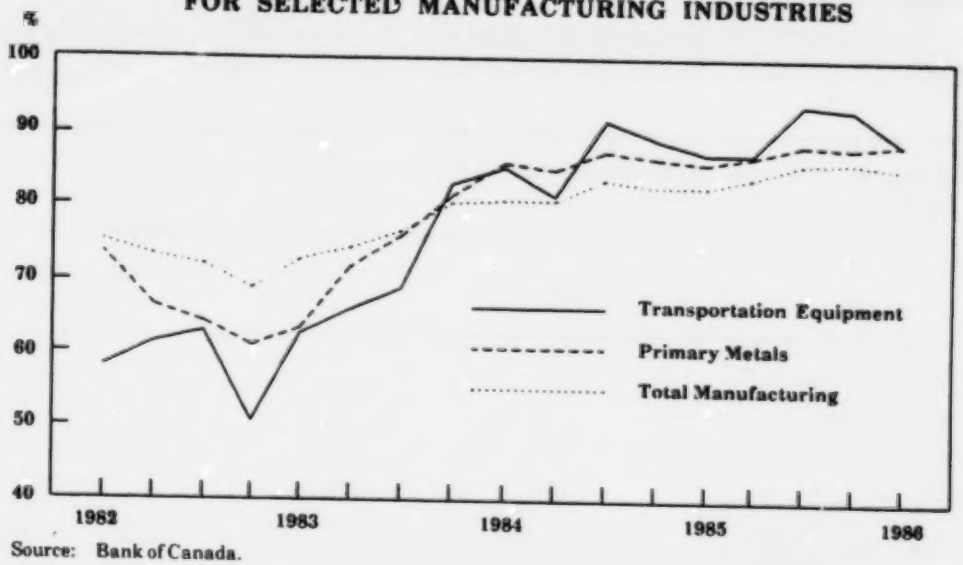


Source: Statistics Canada.

Although capacity utilization rates remain low by historical standards, they have been moving upwards. The current investment expansion reflects the fact that many sectors are reaching the limit of their useable capacity.

- Capacity utilization across all goods-producing industries, excluding energy, stood at 79.9 per cent in the first quarter of 1986, 13.8 percentage points higher than at the lowest point during the recession.
- The manufacturing sector was estimated to be operating at 85.6 per cent capacity during the first quarter of 1986, 16.9 percentage points higher than at the lowest point during the recession. Utilization has been running at higher rates in the transportation equipment and primary metal industries. These industries are expected to account for much of the growth in capital spending in the manufacturing sector.

CANADIAN CAPACITY UTILIZATION RATES FOR SELECTED MANUFACTURING INDUSTRIES

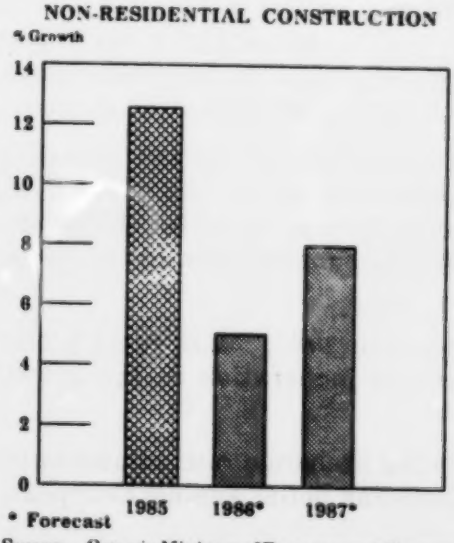


Source: Bank of Canada.

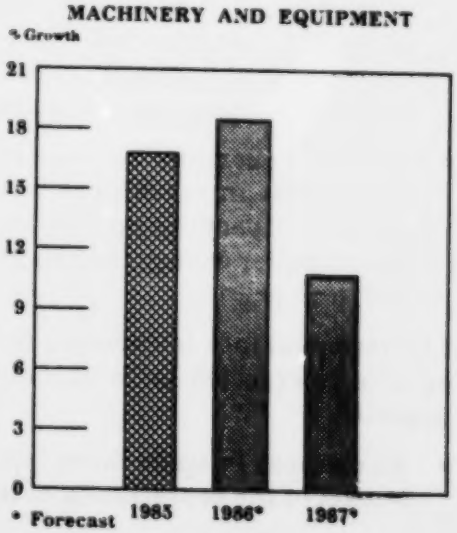
Although factors such as interest rates, inflation and corporate profits are important in the investment decision, the single most important determinant of investment is the outlook for sales. In this regard, demand growth is expected to remain firm, thereby providing the main impetus for continued strength in business investment.

- Total business non-residential investment will post a 13.6 per cent increase in 1986, and a further 9.8 per cent in 1987.
- Investment in non-residential structures will increase moderately, expanding by 5.1 per cent in 1986 and 8.0 per cent in 1987.
- Machinery and equipment spending will make the largest contribution to growth in business non-residential investment, expanding 18.5 per cent this year. The pace of activity will be slower in 1987 but machinery and equipment investment is still expected to advance by a solid 10.8 per cent.

NON-RESIDENTIAL CONSTRUCTION



MACHINERY AND EQUIPMENT



Source: Ontario Ministry of Treasury and Economics.

Exports and Imports

Ontario's trade performance depends, to a large extent, on developments in the United States which is by far our most important trade partner.

Ontario Merchandise Export and Import Shares, by Country, 1985 **Table 2**

	Exports	Imports
	% of Total	
United States	90.8	83.4
United Kingdom	1.5	1.7
Japan	0.8	3.2
West Germany	0.6	1.7
Other Countries	6.3	10.0
All Countries	100.0	100.0

Source: Statistics Canada and Ontario Ministry of Industry, Trade and Technology.

After being the engine of growth in the early years of the recovery, trade is currently a drag on economic growth. Imports are rising more rapidly than exports, resulting in declining net exports.

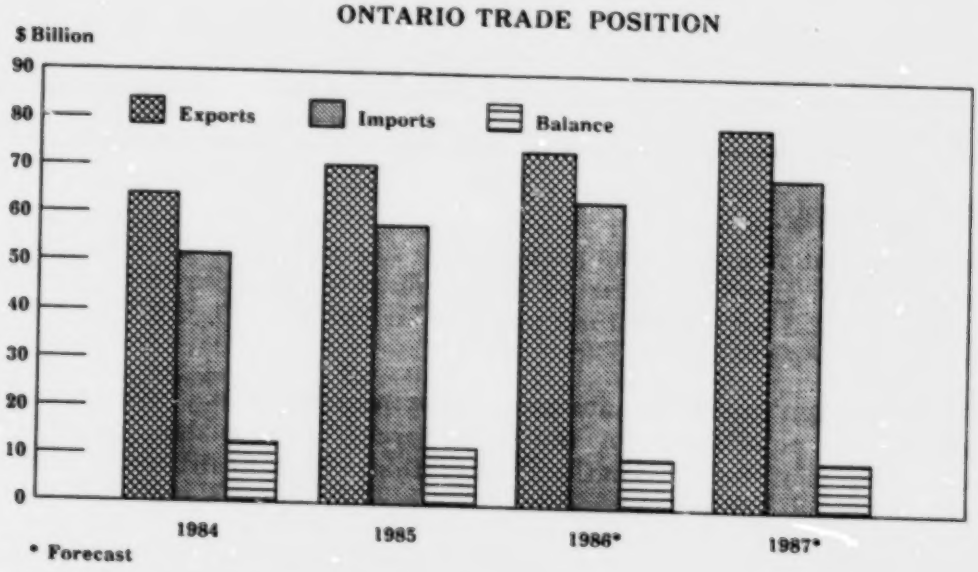
- Weak export growth in 1986 is due to sluggish economic performance in the U.S. In addition, slower growth in the rest of Canada, partly because of low oil prices, will limit the advance of Ontario's interprovincial exports.
- The U.S. market for new cars and light trucks is not expected to repeat gains made in 1984 and 1985. Nonetheless, as a result of the product mix of the Ontario auto industry, some further modest increases of its exports to the U.S. are expected. While the auto sector will be a less important source of export growth, underlying strength in replacement demand is expected to ensure no drastic reversal for the industry.
- Ontario's spending on imports is being boosted by the spending on investment in machinery and equipment, which has a high import content. Spending on foreign-made consumer durables is also strong. Spending for energy imports will decline substantially due to the recent fall in oil prices.

The trade balance is expected to improve in 1987. More rapid growth in exports is expected to be accompanied by moderation in the growth of imports.

- As changes in trade flows typically lag exchange rate adjustments, the impact of the depreciation of the Canadian dollar against European and

Japanese currencies will not become apparent until 1987. This will enhance the competitiveness of Ontario's exports overseas, and improve Ontario's competitiveness in the U.S. market against exports from other countries.

- In addition, low oil prices will directly contribute to a larger trade surplus by reducing Ontario's energy import bill. They should also result in healthy growth in consumer spending in the United States, leading to increased demand for Ontario exports.



Source: Ontario Ministry of Treasury and Economics.

Labour Markets

Overview

Continued economic growth will result in further employment creation and a falling unemployment rate. The Ontario economy is expected to create 156,000 jobs in 1986 and 114,000 in 1987. The unemployment rate is expected to drop from a 1986 average of 7.0 per cent to 6.7 per cent in 1987, as growth in employment outpaces increases in the labour force.

Ontario Labour Market Outlook **Table 3**

	1985	1986 (000s)	1987	1985	1986 (percentage growth)	1987
Labour Force	4,787	4,899	5,010	2.6	2.3	2.3
Employment	4,402	4,558	4,672	3.7	3.5	2.5
Job Creation	159	156	114	-	-	-
Unemployment	385	341	338	-	-	-
Unemployment Rate (%)	8.0	7.0	6.7	-	-	-
Participation Rate (%)	68.0	68.5	69.1	-	-	-

Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

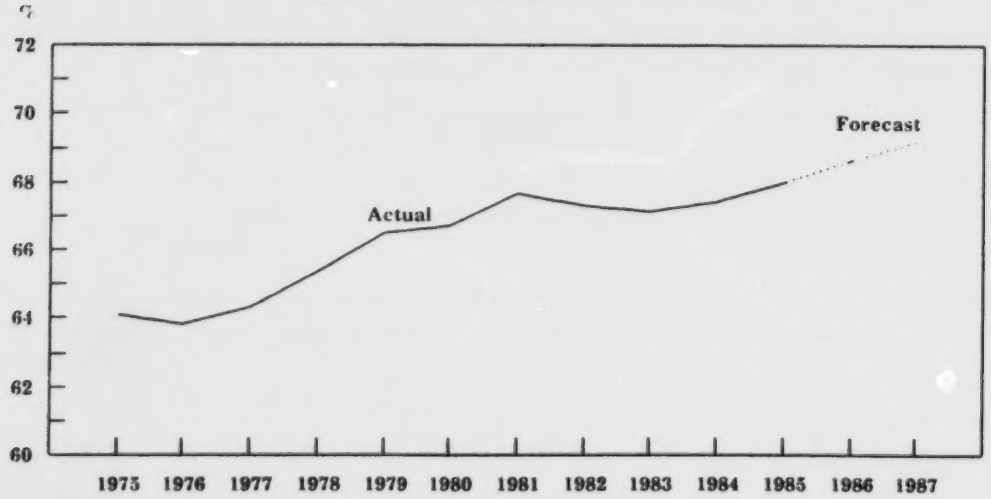
Labour Supply

Both population growth and participation rate increases will contribute to labour force growth. Ontario's labour force is expected to increase by 112,000, or 2.3 per cent, in 1986, and by a further 111,000, or 2.3 per cent, in 1987.

There will continue to be substantial growth in the 15 and over age group, the source population for the work force. This is due, in part, to interprovincial and international migration. Significant net inflows of people can be expected as a result of Ontario's strong economic performance relative to other provinces.

Ontario's labour force will also be affected by increases in the rate of participation in the labour force. In the short-run, participation rates are affected by labour market conditions. As labour markets deteriorate, participation rates fall. For example, participation rates decreased in 1982 and 1983 in response to rising unemployment. Conversely, rates tend to increase as labour markets tighten.

ONTARIO PARTICIPATION RATE



Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

There is also a long-run trend of increasing labour force participation. The labour force participation rate in Ontario increased by 3.9 percentage points from 1975 to 1985. Two major factors have been the trend increase in women's participation rates and the changing age composition of the population.

- Women's participation rates have increased from 48.6 per cent in 1975 to 57.9 per cent in 1985. This growth is expected to continue, but at a decelerating rate.
- The 15 to 24 year old age group peaked in 1980, at 24.3 per cent of the source population. This share dropped to 21.7 per cent in 1985. Youth will continue to decline as a proportion of the source population, while the prime age group, 25 to 44 years of age, will increase. The prime age group has a higher participation rate than youth, and will continue to exert upward pressure on the aggregate participation rate.

Employment

Job creation is forecast at 156,000 this year, and a further 114,000 in 1987.

Job creation will continue to be concentrated in the service industries both this year and next. In the goods-producing industries, manufacturing and construction will remain significant contributors to employment growth. The private sector accounted for 140,000 or 88.1 per cent of the jobs created in 1985, and will continue to dominate job creation in 1986 and 1987.

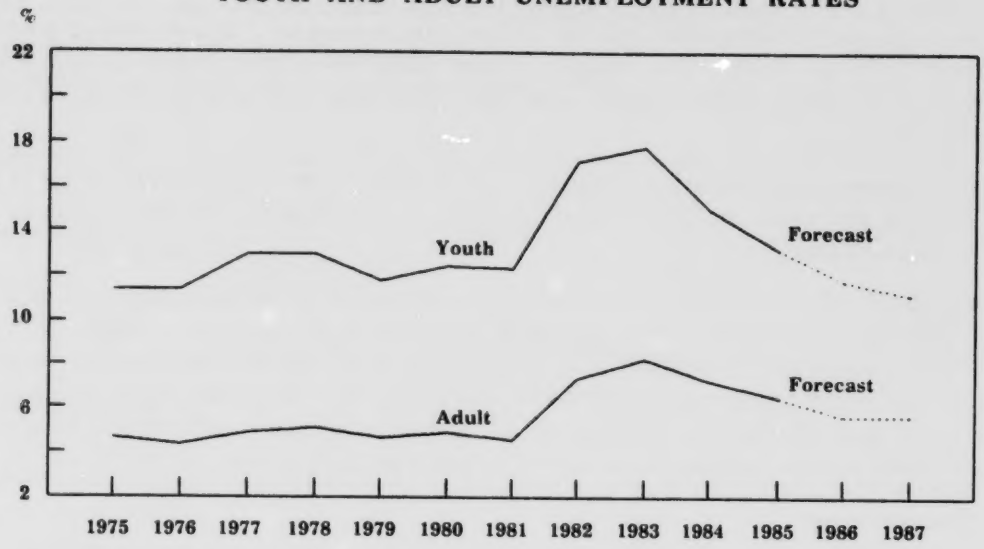
Most of the jobs created so far in 1986 have been full time. Indeed since the end of the recession, full-time employment has grown more strongly than part-time employment, in contrast to the experience of the late 1970s and early 1980s. Part-time employment in Ontario accounts for about 16 per cent of total employment. This is slightly higher than in the rest of Canada, but two percentage points lower than the comparable figure in the United States.

Unemployment

Employment growth is forecast to continue to outpace growth in the labour force, resulting in a decline in both the number of people unemployed and the unemployment rate.

Unemployment rates for youth continue to be higher than those for adults. Both rates peaked in 1983, the youth unemployment rate at 17.8 per cent and the adult rate at 8.1 per cent. Neither unemployment rate has yet returned to its pre-recession level, although the youth unemployment rate is expected to do so this year.

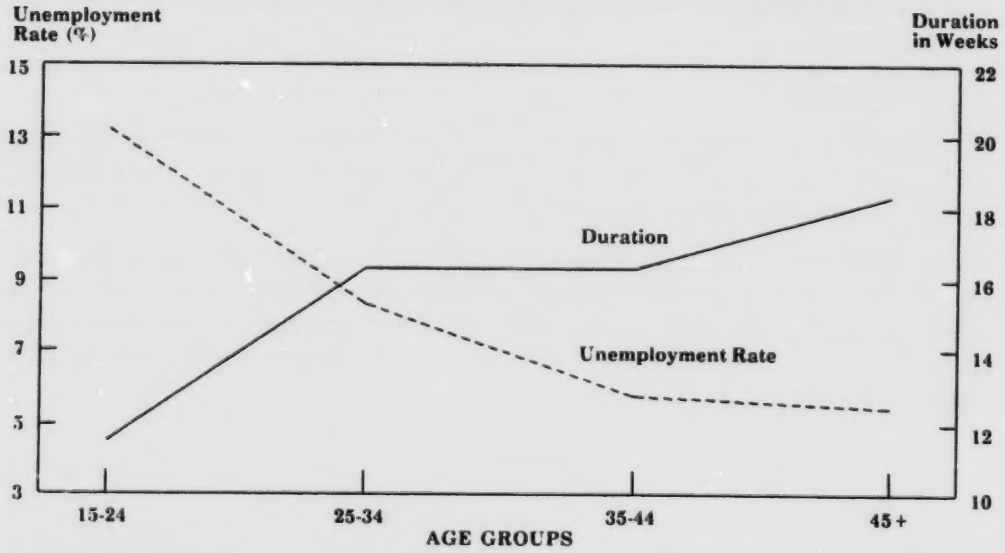
YOUTH AND ADULT UNEMPLOYMENT RATES



Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

While youth have relatively high rates of unemployment, the incidence of long-term unemployment is lower for young people than for other age groups. Older workers, while typically having the lowest unemployment rates, are more likely to experience longer-term unemployment once they lose their jobs. In 1985, the duration of unemployment among older workers averaged 18.3 weeks compared to 11.5 weeks for youth.

ONTARIO UNEMPLOYMENT RATES
AND AVERAGE DURATION OF UNEMPLOYMENT, 1985



Source: Statistics Canada.

Wages

Wage increases have remained moderate since the end of the recession. Average industrial wages in Ontario rose by 4.6 per cent in 1985. This translated into an average real wage increase of 0.6 per cent.

- In Ontario, collective bargaining settlements without cost-of-living-adjustment (COLA) averaged 5.0 per cent in 1985. In the first half of 1986, they averaged 4.5 per cent.
- Data for the country as a whole indicate somewhat lower wage gains in the rest of the country. 1985 settlements without COLA averaged 3.6 per cent across Canada. So far in 1986, they are averaging 3.7 per cent.
- Private sector wage settlements have generally been below public sector settlements. In 1985, Canadian settlements in the private and public sectors averaged 3.1 per cent and 3.8 per cent, respectively. In Ontario, settlements averaged 4.3 per cent for the private sector and 5.1 per cent for the public sector.

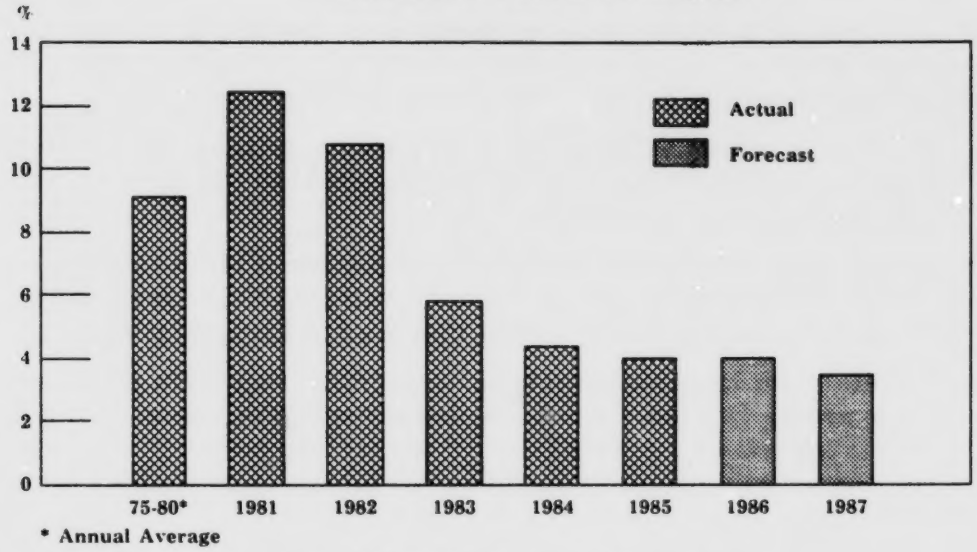
NON-COLA WAGE SETTLEMENTS
OVER 500 EMPLOYEES, ALL AGREEMENTS

Source: Labour Canada.

Inflation

One of the more striking differences between the economy of the late 1970s and the economy of the mid-1980s is the markedly lower rates of inflation. Consumer price inflation fell from 12.5 per cent in 1981 to 4.0 per cent in 1985, the lowest rate since 1971. The recent decline in oil prices should consolidate the lower levels of inflation. Only moderate inflation is anticipated in the outlook period. The Consumer Price Index is expected to rise by 4.0 per cent in 1986 and by 3.5 per cent in 1987.

CONSUMER PRICE INFLATION



Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

Falling oil prices, coupled with weak agricultural prices, have been placing downward pressure on Canada's inflation rate in 1986.

- The energy cost component of the Consumer Price Index fell by 12.1 per cent between September 1985 and September 1986.
- Agricultural product prices are also weak. In Ontario, farm prices of agricultural products fell by 2.9 per cent in the first half of 1986 compared to the same period a year earlier.

The main sources of upward pressure on Canada's inflation rate in 1986 have been increases in indirect taxes and in the price of services.

- It is estimated that federal tax hikes will have added 1.0 to 1.5 percentage points to the increase in the Consumer Price Index this year.
- Service prices have risen by an average of 5.0 per cent to date this year, compared to only 3.9 per cent in 1985. This acceleration has been driven to a large extent by the rapid increases in insurance premiums and housing prices.

In 1987, the inflationary impact of the increases in indirect taxes will have worked its way through the system. It is assumed that there will be no further increases in indirect taxes, aside from those already announced. Other factors will also contribute to low inflation.

- Raw materials will continue to face oversupply on world markets, exerting downward pressure on inflation. However, it is expected that there will be a modest firming of raw material prices from their current low levels.
- There is still sufficient excess capacity that continued economic expansion expected in 1987 can be accomplished without exerting upward pressure on prices.
- Prices of imported goods are expected to remain relatively stable.

Medium-Term Outlook: 1988-1990

Introduction

This section provides a projection of the performance of the Ontario economy beyond 1987 to the end of the decade. It is important to note that these projections are not targets; nor are they to be regarded as necessarily an acceptable economic performance. Moreover, unlike the short-term forecast, this is not a forecast of cyclical movements in output or employment. It is an attempt to indicate how large the economy will be by 1990, given certain reasonable assumptions about the external environment.

Overview

Ontario is projected to sustain its improved economic performance at least to the end of the decade. There are several key assumptions that underlie this expectation:

- Energy prices will increase only modestly.
- Real interest rates will continue to trend down.
- The Canadian dollar will not appreciate sharply relative to the U.S. dollar.
- The international economy will continue to expand, with a more balanced performance amongst the U.S., Europe and Japan.
- Significant increases in U.S. protectionism will be avoided.*

Table 4 summarizes the forecast for 1988-1990. The graphs that follow compare the forecast performance for the medium term with preceding periods. They indicate a significant improvement in the economic outlook relative to the past decade.

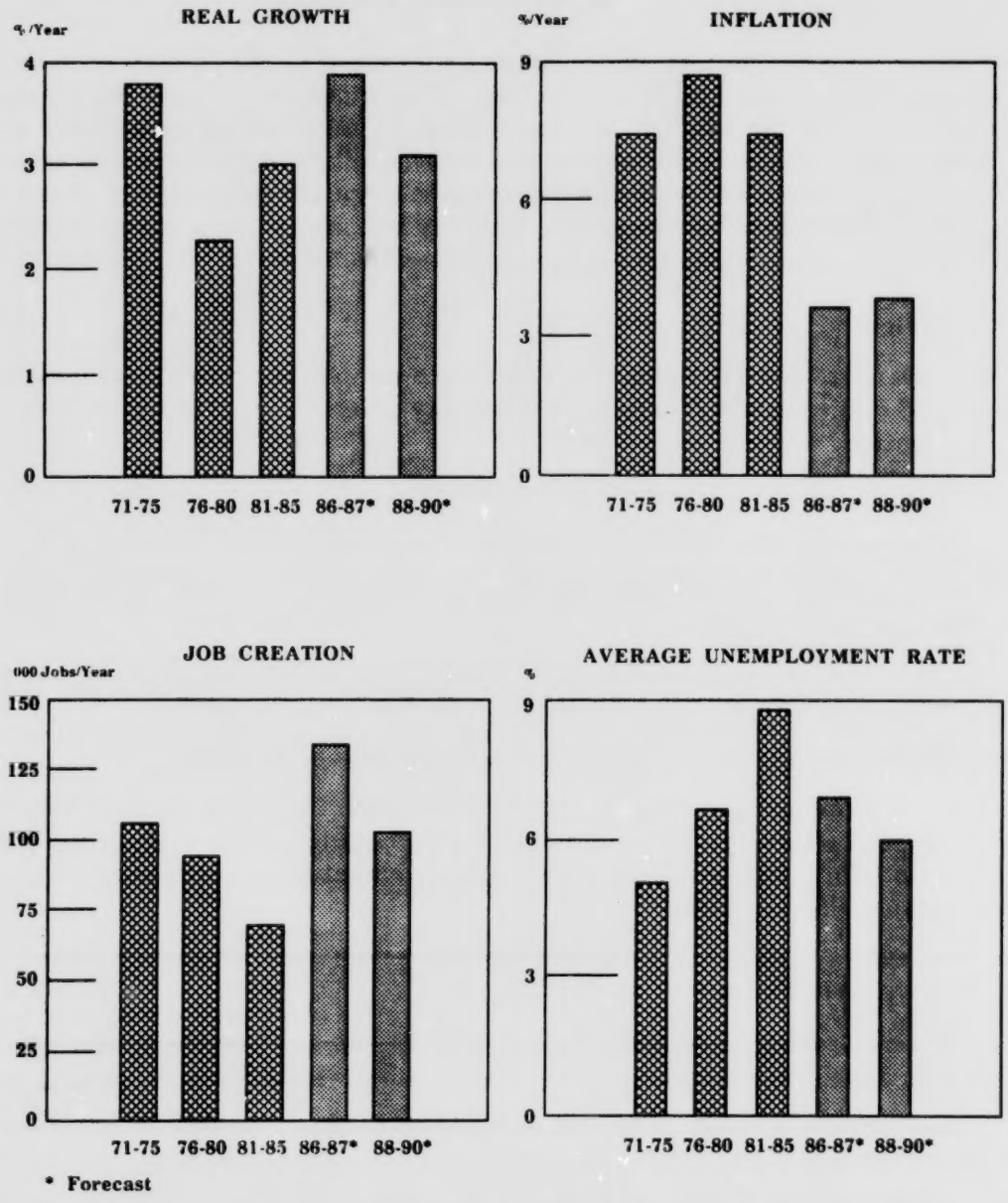
The Ontario Economy: 1988-1990 **Table 4**
(Annual Average)

	Base Case
Real Growth (%)	3.1
Inflation (%)	3.9
Job Creation (000s)	103
Unemployment Rate in 1990 (%)	5.5

Source: Ontario Ministry of Treasury and Economics.

* A free trade agreement with the United States has not been assumed in the medium-term outlook.

ONTARIO'S MEDIUM-TERM OUTLOOK



* Forecast

Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

Key Factors in the Medium Term

The U.S. and World Economy

Over the remainder of the decade, 1988-90, the U.S. is projected to achieve moderate real growth averaging 3.0 per cent annually. U.S. budget deficit reduction is assumed to proceed in step with declining interest rates in the U.S. and continued low inflation. This results in steady growth of consumption and investment. The U.S. trade position is expected to improve

gradually, further supporting growth. This will be partly the result of better balanced and sustained growth in the world economy.

The Rest of Canada

From 1988 through 1990, growth across Canada is expected to be more evenly distributed. Moderate growth in the world economy should help firm resource prices and stimulate growth in the rest of Canada.

Financial Markets

Beyond 1987, real interest rates are assumed to trend down to historically more normal levels, reaching near 3.5 per cent by 1990. The exchange rate against the U.S. dollar is expected to appreciate gradually to 75¢ by 1990.

Oil Prices

Oil prices are expected to be stable in real terms over the medium term. Current low prices will induce some marginal producers to leave the market. They will also, over time, encourage more consumption of oil products. However, to a large extent, the increased efficiency in energy use that came about during the period of high energy prices is irreversible. Consequently, demand is unlikely to rise sharply.

Sources of Growth

Consumption

Medium-term prospects for consumer spending are very positive.

- Employment increases and real wage growth will raise real purchasing power.
- Savings rates will continue to decline from their present high level as inflation moderates and as uncertainty about economic prospects diminishes.
- Interest rates on consumer loans and mortgages will decline over the period.
- An increasing proportion of the population is in the 25 to 40 year-old age group, with its attendant high consumption of durable goods. In addition, the number of two-earner families will continue to rise. These demographic factors, in combination with the weak performance in the early 1980s, suggest the existence of strong potential demand.

Housing

Between 1988 and 1990, the formation of roughly 62,000 net new households per year can be expected. Also, there is some pent-up demand from the first half of the 1980s, when almost 70,000 new households were formed each year on average while housing starts averaged 49,500. In conjunction, these factors should result in expenditure on housing remaining strong. Given the favourable interest rate climate and a healthy

labour-market outlook, housing starts are expected to average between 71,000 and 75,000 per year.

Investment

The current rapid growth rates for investment spending are likely to moderate over the balance of the decade. After 1988, investment spending is expected to increase in tandem with the overall growth of the economy.

Investment will be supported by reasonably strong domestic demand, stronger corporate balance sheets reflecting the low inflation rate and further declines in interest rates, rising capacity utilization and further improvements in corporate profits.

Investment in machinery and equipment should continue to grow more rapidly than capital spending on non-residential construction.

Trade

Ontario's trade balance is expected to improve over the medium term. A sustained and balanced increase in the growth of the world economy, coupled with the maintenance of Ontario's competitive position, will continue to encourage export growth.

Imports during 1988-1990 will grow less rapidly than in 1986-1987. This results from more moderate growth in Ontario's economy. However, import growth will still remain substantial, reflecting the healthy growth in both consumer demand and business investment in machinery and equipment.

Employment, Productivity and Inflation

Employment and Labour Force

The Ontario economy is projected to generate 103,000 new jobs per year over the years 1988-90. Employment is expected to grow at an average annual rate of 2.2 per cent while the labour force is expected to grow at a 1.7 per cent average annual rate. The unemployment rate is forecast to drop to 5.5 per cent in 1990.

Growth of the labour force will slow over the forecast period. This reflects a marked slowdown in the growth of the over-15 population. This slowdown is only partially offset by an increasing participation rate. The age composition of the labour force will change over the forecast period. Despite increasing participation rates, the size of the youth labour force will be about 50,000 lower in 1990 than in 1985.

Productivity

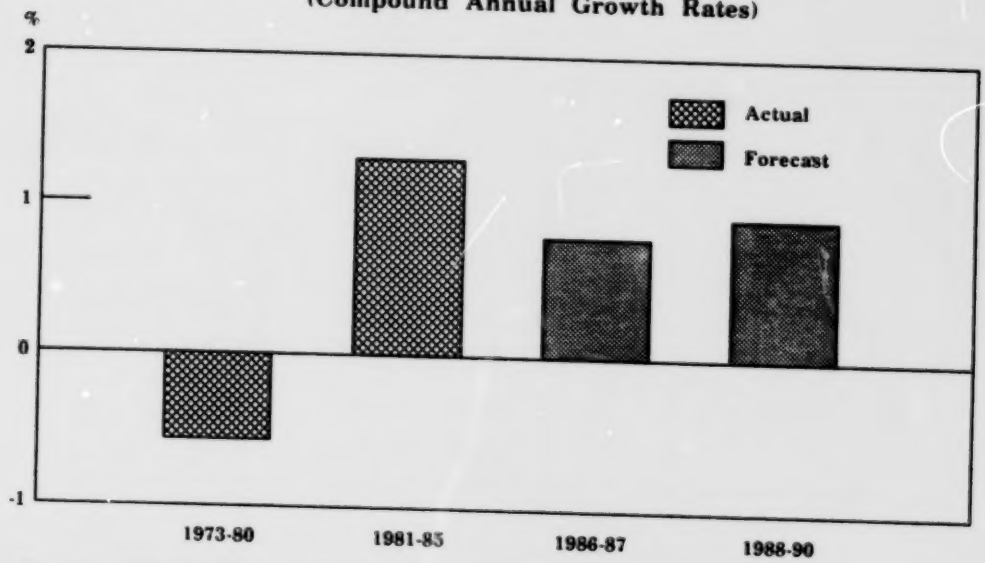
Productivity growth is a crucial factor in the economic outlook affecting international competitiveness, job creation and real income growth. Output per employee is projected to rise by 1.0 per cent per year over the forecast horizon. This would be a significantly better result than the provincial economy achieved in the 1970s, but is in line with more recent experience.

Between 1973 and 1980, output per employee in Ontario fell by 5.9 per cent. This decline reflected: energy price shocks, high inflation, low capacity utilization, slower capital formation, and rapid growth of the labour force.

These factors are not expected to be important in the outlook period. A better trend in productivity growth should be supported by:

- stable energy prices;
- low inflation;
- stronger capital formation in manufacturing and services;
- slower labour force growth; and
- maturing of the labour force .

ONTARIO PRODUCTIVITY PERFORMANCE
(Compound Annual Growth Rates)



Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

Inflation

Moderate inflation is expected to continue, with CPI increases averaging 3.9 per cent over the period 1988-90. Monetary policy in the major industrial countries, including Canada, is expected to be aimed at maintaining stable prices.

Population

In the 1988-1990 period, Ontario's population will grow by 1.1 per cent per year, compared to the 1.2 per cent per year that occurred in the period 1982 - 1985. The actual increase between 1987 and 1990 will be 304,000 people, with Ontario's population rising to 9,593,000. Around 60 per cent of expected growth will be due to the excess of births over deaths. Ontario is expected to experience continued population gains as a result of

interprovincial migration. In addition, Ontario will benefit from a moderate increase in net international migration.

The only age group to experience a decline in the 1988-1990 period will be young adults aged 15-24, whose numbers will decline by 7.3 per cent. The elderly population will grow by 105,000 or 10.1 per cent, with almost half this growth among those 75 and over. By 1990, the 65 and over age group will account for 12.0 per cent of Ontario's population compared to 10.7 per cent in 1985.

Ontario Population By Age Group: 1985, 1987 and 1990 **Table 5**
(Thousands)

	Population			
	1985	1987	1990	1990/1987 (% change)
0-4	626	651	666	2.3
5-14	1,258	1,248	1,272	1.9
15-24	1,553	1,508	1,398	-7.3
25-39	2,258	2,345	2,459	4.9
40-49	1,047	1,137	1,278	12.4
50-64	1,348	1,358	1,373	1.1
65-74	584	626	680	8.6
75+	386	416	467	12.3
TOTAL	9,060	9,289	9,593	3.3

Source: Ontario Ministry of Treasury and Economics.
Note: Data for 1985 are estimates and data for 1987 and 1990 are forecasts.

Sector Outlook

Overview

For the past five years, Ontario's growth in output has been based primarily on improvements in the auto and service sectors. For the next five years, Ontario's performance will be stronger and will reflect more balanced growth as other sectors are expected to show higher growth rates than earlier. Growth will be led by the construction industry, especially in 1986 and 1987, reflecting strong increases in residential construction. Above average growth will also continue to be experienced by the transportation equipment industry. The primary sector and resource-based industries, while improving on their 1981-85 performance, will show the least growth; slow growth in world demand for their products will persist. In keeping with its past performance, the service sector will be a source of higher than average growth over the forecast period.

Sector Outlook for Ontario — **Table 6**

	Real Output (Annual % Change)	
	1981-85	1986-90
Primary	0.2	1.6
Manufacturing	2.4	3.1
Resource-Based Manufacturing	0.8	2.4
Transportation Equipment	10.2	3.6
Other Manufacturing	1.4	3.3
Construction and Utilities	2.7	4.2
Service Sector	3.3	3.6
Total	2.9	3.4

Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.
Note: Industries included in each sector are enumerated in sections below.

Unit Labour Costs

The strength of Ontario's economic outlook, including continued growth in exports, in part reflects improvements in Ontario's competitive position in the U.S. market. A significant factor has been the decline in Canada's unit labour costs, measured in U.S. dollars, relative to those in the United States.

In the late 1970s and early 1980s strong resource prices led to rapid domestic inflation, increased strike activity and high wage settlements relative to the United States. This was partially offset by currency depreciation. In turn, since 1982 the weaker resource sector has moderated domestic inflation and wage settlements throughout the economy. Lower

resource prices have also weakened the Canadian dollar, further adding to the improved relative cost performances in Canada.

Between 1981 and 1985, unit labour costs rose by 12.4 per cent in the U.S. and 19.8 per cent in Canada.

However, when exchange rate movements are taken into account, unit labour costs in Canada -- measured in U.S. dollars -- increased by only 5.2 per cent over the same period. During 1984 and 1985, exchange rate adjusted Canadian unit labour costs declined by a total of 5.2 per cent, primarily resulting from a depreciation of nearly 10 per cent in the Canadian dollar.

Canada-U.S. Unit Labour Costs, 1981-1985 **Table 7**
(Per Cent Change from Previous Year)

	1981	1982	1983	1984	1985
United States	8.7	7.0	0.5	1.2	3.4
Canada	12.5	11.9	1.9	2.4	2.6
Canada*	9.7	8.7	2.0	-2.6	-2.7

Source: Bank of Canada and U.S. Department of Labor.
* Exchange rate adjusted to express Canadian costs in terms of U.S. dollars.

- The substantial depreciation of the Canadian dollar against major European currencies and the Japanese yen since the G-5 agreement in September 1985 should make Ontario's exports more competitive, not only in Japan and Western Europe, but also in the important U.S. market.

The forecast anticipates no significant change in relative unit labour costs over the forecast horizon.

Business Investment

An indication of the combined effects of stronger demand and increased competitiveness is provided in this year's investment intentions of business in Ontario.

- Investment in manufacturing will account for about two-thirds of the expansion in total business investment in 1986. Substantial increases in investment are expected in the transportation equipment industries, essentially autos, followed by the metal fabricating and machinery industries.
- Investment in commercial services and in the retail and wholesale trade sector will be quite robust. A healthy expansion is also expected in both the finance and construction sectors.

- Investment is expected to be much stronger for machinery and equipment than for non-residential construction, due to business use of new technology to improve productivity.

Share of Ontario Non-Residential Business Investment **Table 8**

	1985	1986
	(per cent)	
Agriculture & Fishing	5.6	3.4
Forestry	0.2	0.2
Mining, Quarrying & Oil Wells	3.2	2.5
Manufacturing	29.0	33.8
Construction	2.2	2.2
Utilities	27.4	24.7
Trade	4.9	5.0
Finance, Insurance & Real Estate	13.2	13.1
Commercial Services	14.3	15.1
Total Business Investment	**100.0**	**100.0**

Source: Statistics Canada.

Primary Sector Outlook

Following modest increases in real output in 1985, agriculture, mining and forestry are expected to show further gradual increases in the next five years.

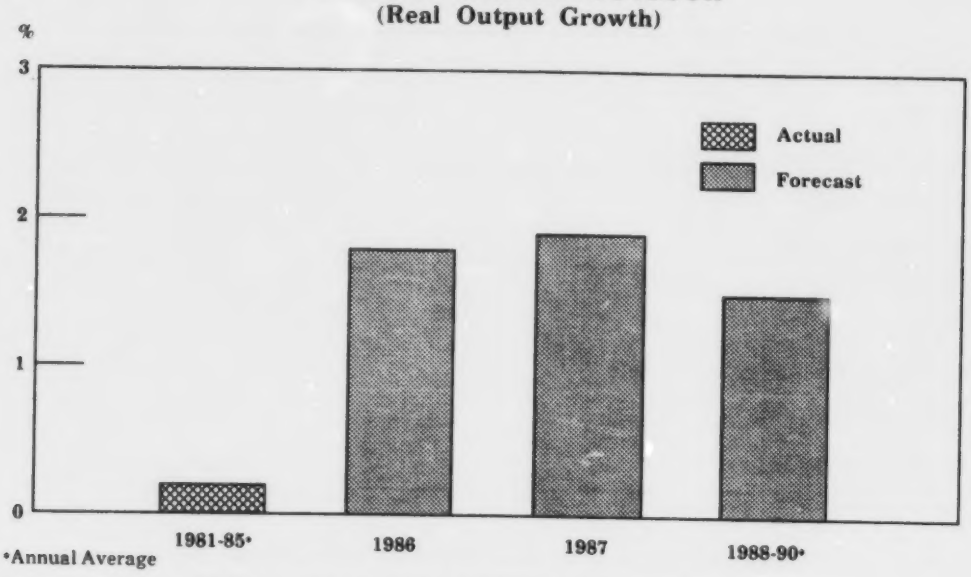
The outlook for Ontario's relatively diversified agricultural sector is for real output growth of about 1.5 per cent annually. Prospects for red meat, especially hogs, are relatively favourable due to higher prices and lower feed costs. Output of fruit, vegetable and nursery production, and supply-managed products such as dairy and poultry should remain relatively stable, with poultry continuing its steady growth. However, for corn, wheat and, to a lesser extent, soybeans, the impact of lower prices caused by the U.S. Food Security Act of 1985 will be significant. In the tobacco sector, further industry rationalization is expected. Farmers' difficulties in servicing debt will ease somewhat as a result of declining interest rates, government programs and, in many cases, lower levels of debt.

Within the mining sector, gold and platinum are the two brightest spots. The Hemlo area gold mines are still expanding. With the recent rise in gold and platinum prices, and increases in exploration activity, it is possible that a number of new mines will be developed. One zinc deposit is also under

development. However, iron ore mines will continue to face difficulties, reflecting the high operating costs of Ontario mines, and limited demand in downstream steel markets.

Forestry output is expected to improve steadily, reflecting strength in the downstream wood products and pulp and paper industries. In addition, forest management agreements with the major operators are leading to expansion of nurseries and forest regeneration activities.

PRIMARY SECTOR OUTLOOK
(Real Output Growth)



Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

Manufacturing Outlook

Resource-Based Manufacturers

Resource-based manufacturers include pulp and paper, wood products, primary and non-metallic metals, metal fabricating and petroleum refining. The success of most of these industries is closely related to world market conditions. The outlook assumes that moderate growth in the United States and OECD will continue; it also assumes that exports to the important U.S. market will not be significantly curbed or restrained by new protectionist efforts.*

Following very slow growth over the past five years, output is expected to increase significantly between 1986 and 1990. Nonetheless, growth rates will still be below the average for manufacturing or for the economy as a whole.

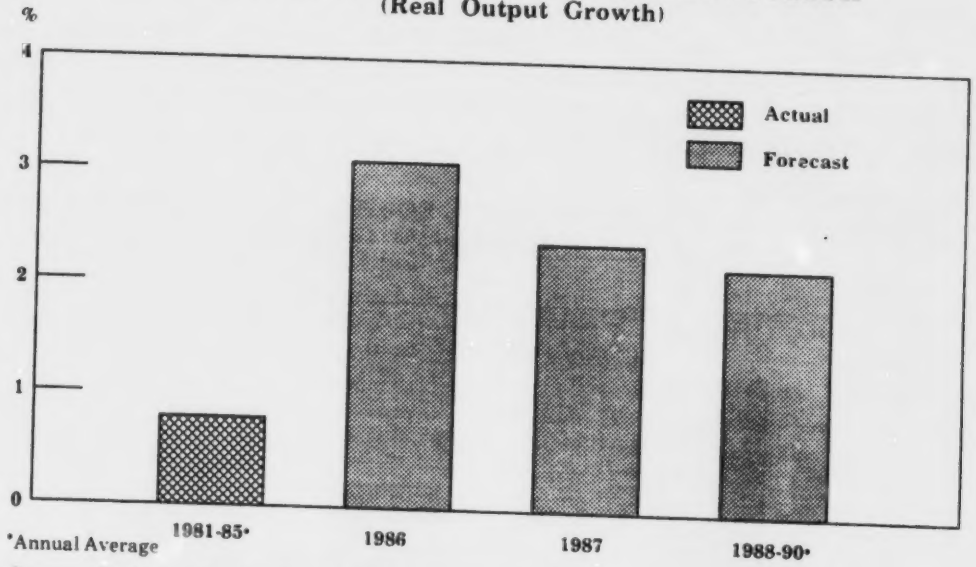
Demand and prices for pulp and paper are increasing again and Scandinavian producers are less competitive in the U.S. market as a result of recent currency adjustments. In addition, the high level of residential

* This forecast is based on a positive resolution of the softwood lumber dispute.

construction activity in Canada and the United States is giving strong impetus to production and exports of lumber. Non-metallic mineral products and fabricated metals, although more oriented to domestic markets, are also benefitting from the pace of construction activity.

While steel producers are completing extensive modernizations, resulting in one of the most efficient industries in the world, very little growth in production is expected during the next five years. Expected increases in demand from the automotive sector are being offset by sharply lower sales to the energy industry, and by restrained exports to the United States. In addition, petroleum refining will experience negligible output growth due to continuing gains in fuel economy in the transportation sector.

RESOURCE-BASED MANUFACTURERS OUTLOOK
(Real Output Growth)



Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

Transportation Equipment

In 1986, real output in Ontario's transportation equipment sector is expected to increase by 4.5 per cent. For 1987, with new production from Honda and AMC coming on stream, real output is anticipated to increase by 5.0 per cent. For the 1988-90 period, continued real growth of 2.9 per cent per year is forecast, buoyed by new investment by both U.S. and Japanese auto companies.

Ontario's transportation equipment sector is dominated by motor vehicles and parts, which account for about 95 per cent of the sector's value of shipments and 85 per cent of its employment. Ontario has benefitted from the automobile industry's drive to become more competitive due to the province's advantageous location and its efficient and cost-effective labour force. North American producers' investments include: Chrysler's mini-van plant in Windsor; AMC's new $764 million assembly plant in Brampton; and GM's $2 billion GM-10 project in Oshawa. In addition, in an attempt to

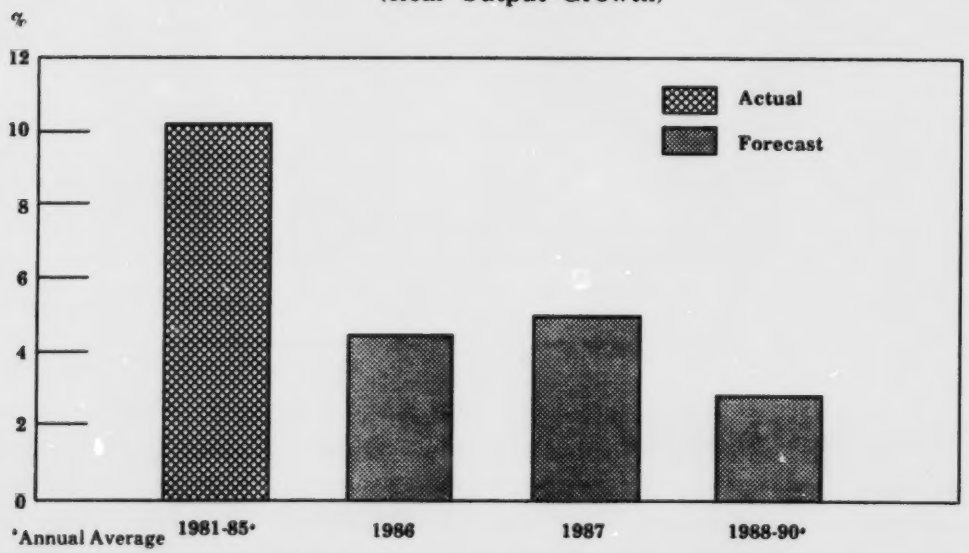
anchor their export markets, Japanese auto makers are making substantial investments in assembly plants in Ontario: Honda, $200 million; Toyota, $400 million; and Suzuki in partnership with GM, $500 million.

This year, sales of North American cars and trucks are expected to level off, following large increases in 1984 and 1985. However, demand for the larger cars, trucks and mini-vans, in which Ontario's production is concentrated, should continue to expand. Sales of these vehicles will benefit from low gasoline prices and more lenient fuel economy standards in the U.S.

The auto parts sector is expected to grow but at a slower rate than the assembly sector. In part, this is due to increased foreign offshore producer penetration of the U.S. market and a growing trend in the U.S. domestic industry to source parts to newly-industrializing countries such as Brazil, Mexico, Taiwan, and South Korea.

The aerospace industry is growing steadily. In particular, DeHavilland has announced orders and options on 82 new Dash-8 aircraft worth an estimated $730 million. Further orders are anticipated, reflecting the increase in demand for commuter air services.

TRANSPORTATION EQUIPMENT OUTLOOK
(Real Output Growth)



Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

Other Manufacturing

Healthy growth is expected in electronics and, to a lesser extent, in electrical products. This will be fuelled by strong business spending, especially in the service sector, and continued strong residential construction and consumer spending on appliances. Machinery sales will be aided by growth in business investment in plant and equipment. Export opportunities in offshore markets will also improve, particularly since

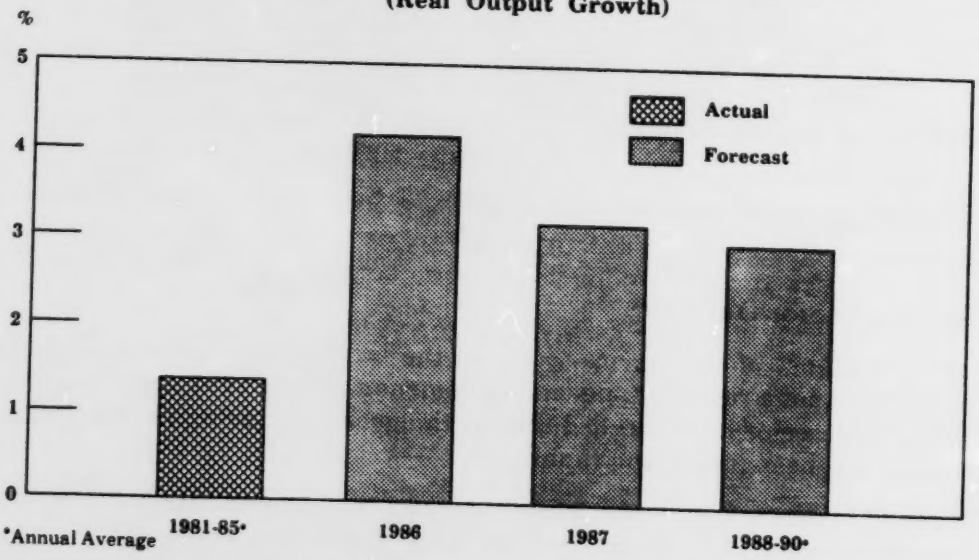
European and Japanese competitors' prices have risen due to currency changes.

Cautious optimism about chemical production is based on lower feedstock prices and industry-wide restructuring, rationalization and productivity improvements in response to world-wide over capacity. Pharmaceuticals, cosmetics, soaps, detergents and specialty chemicals are expected to do well, as are paint manufacturers supplying the construction industry. The plastics industry is expected to gain further market share from more traditional materials such as metals and glass.

The printing and publishing industries will continue to be strong performers. In addition, the furniture and textile industry will be buoyed by the rapid growth in housing construction and renovation. The clothing industry is also demonstrating strength as Canadian design talent becomes better recognized.

The food and beverages industries are expected to show only marginal growth, despite efforts by the industry to introduce new products and adopt newer packaging techniques. The leather products industry is adjusting to the removal of quotas on men's and boys' shoes, and to the relaxation of quotas on women's and girls' shoes. Progressive firms in the industry show prospects of growth in markets for higher priced, high fashion shoes.

OTHER MANUFACTURING INDUSTRIES OUTLOOK
(Real Output Growth)



Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

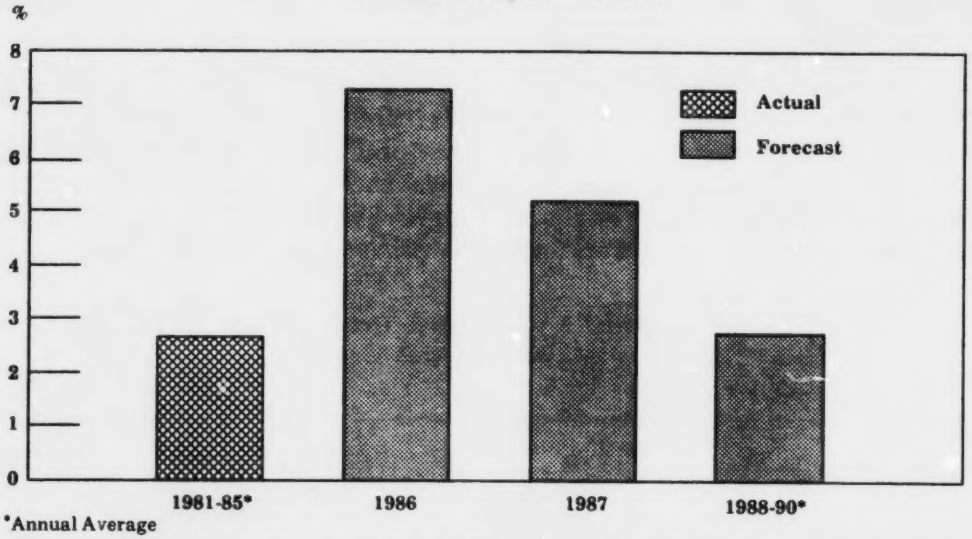
Construction and Utilities Outlook

The construction sector is expected to lead output growth, expanding by 9.5 per cent in 1986 and 6.4 per cent in 1987. In the 1988-90 period, growth is expected to match the overall rate of growth of the economy. This sector is buoyed by the surge in activity in residential construction and by the continued moderate expansion in plant construction. Ontario's housing

starts are expected to climb to 73,000 in 1986, and 77,000 in 1987. Renovations are expected to contribute significantly to the increase in residential construction activity. Non-residential construction is expected to show steady improvement. Most of the strength is attributed to construction projects in the manufacturing sector, primarily the expansion of automobile manufacturing facilities.

The utilities sector includes Ontario Hydro, local electrical utilities, natural gas distributors and water distribution utilities. For 1986 and 1987, output in the utilities sector is forecast to grow in real terms at 4.0 per cent and 3.3 per cent, respectively. In 1988-90 growth will slow to 2.3 per cent annually.

CONSTRUCTION AND UTILITIES OUTLOOK
(Real Output Growth)



*Annual Average

Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

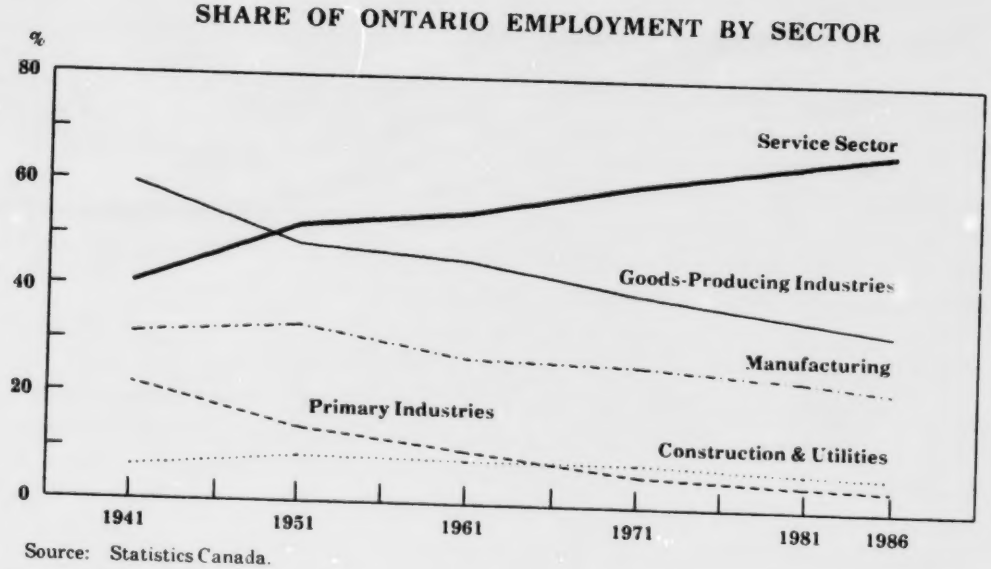
Service Sector Outlook*

The emergence of the service sector as the largest component of Ontario's economy is not a recent or sudden phenomenon. Since 1951, employment in the service sector has exceeded that in the goods-producing industries, and the gap has been increasing rapidly.

Since 1971, the service sector has averaged a real growth rate of 3.5 per cent per year, compared to 3.0 per cent for the economy as a whole. Employment growth in services has been equally impressive. The service sector also shows less cyclical variability in output. Even during the 1982 recession, when other sectors experienced varying degrees of setback, services managed 0.2 per cent growth in output.

* For a more detailed analysis of this sector, see Background Notes on the Service Sector in Ontario, Ministry of Treasury and Economics, May 1986. A final report by Mr. George Radwanski is forthcoming.

SHARE OF ONTARIO EMPLOYMENT BY SECTOR

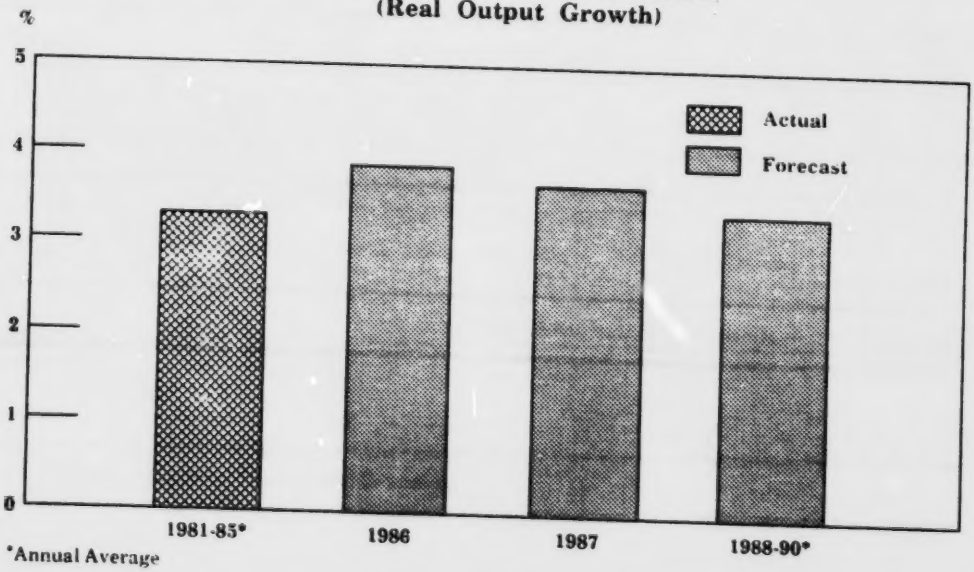


Source: Statistics Canada.

Several factors are contributing to the expansion of the service sector. The information age and the growing complexity of the economy are increasing the need for financial, legal, accounting, advertising, computer and other specialized services. The strongest growth is in these areas. The aging of Ontario's population is increasing demand for services related to health and personal care. Increased personal incomes and the growth of two-earner families are leading to greater demand for recreational, educational and household services. In particular, tourism will be an important beneficiary of the steady growth in household incomes. Increased promotional efforts and the favourable exchange rate will also enhance Ontario's attractiveness to both domestic and foreign tourists. An estimated $8.2 billion will be spent in 1986 by all travellers in Ontario.

Real output in the service sector is expected to grow somewhat more rapidly than in the goods-producing sector throughout the forecast period. Services will continue to be Ontario's major source of employment growth.

SERVICE SECTOR OUTLOOK
(Real Output Growth)



*Annual Average

Source: Conference Board of Canada and Ontario Ministry of Treasury and Economics.

Alternative Scenarios

All forecasts depend on assumptions. Because Ontario's is a relatively small open economy, highly vulnerable to developments in the rest of the world, the key assumptions for Ontario concern external factors. The base case, outlined earlier, presumes a generally supportive international economic environment and a reduction in real interest rates. This section develops two alternative scenarios based on different assumptions about the performance of the U.S. economy.

Alternative Scenario I: Lower U.S. Growth

In this lower growth scenario, the U.S. trade deficit worsens as a result of falling demand for U.S. industrial exports and increased penetration of the U.S. market by imports, notably from newly-industrializing countries. As a result, real U.S. growth declines to 0.3 per cent in 1987 (compared to 2.9 per cent in the base case).

Lower growth would also lead to a larger than expected federal budget deficit. Current concern over the size of the U.S. budget deficit suggests it would be unlikely for fiscal stimulus to be used to offset the effects of a slowdown. In addition, a worsening federal budget deficit may limit the Federal Reserve Board's ability to reduce interest rates further, particularly if central banks in Germany and Japan refuse to parallel cuts in the Board's discount rate. Monetary policy could be restrained by the need to attract sufficient overseas capital to help finance both the current account deficit and the federal budget deficit.

- The impact of the trade deficit on growth would be compounded by further declines in business investment.
- Consumer spending, currently the major source of growth in the U.S. economy, would be reduced as a result of slower employment and income growth.

Table 9 summarizes the short-term impact of slower U.S. growth on Ontario's economic performance.

The 1987 Ontario Economy: Alternative Scenario I **Table 9**

	Real Growth (%)	Inflation (%)	Job Creation (000s)	Unemployment Rate (%)
Base Case	3.6	3.5	114	6.7
Low Growth	1.5	3.3	65	7.8

Source: Ontario Ministry of Treasury and Economics.

- Initially, the impact of a stagnating U.S. economy would be felt in Ontario's export sectors such as autos, resource-based commodities, and certain capital goods oriented to U.S. markets. However, lower employment and income growth in the export sectors would ultimately weaken domestic demand.
- The slowdown in global demand would limit growth of markets for Ontario products and undermine business confidence, resulting in reduced business investment in Ontario.
- Profits would decline in 1987; sales volumes and margins would be hard-hit. Projects currently underway would likely be completed as firms attempted to assess the severity of the decline in demand. Projects now in the planning stage would be unlikely to come to fruition until growth has resumed and excess capacity has been absorbed.
- The housing sector would remain fairly buoyant over the short-term as pent-up demand and lower interest rates would continue to spur growth. However, weaker growth in personal income eventually would have a dampening effect on the demand for housing.

In this scenario it is assumed that the United States does not adopt new protectionist measures. However, the impact would be exacerbated by aggressive U.S. protectionism in reaction to a further deterioration in the U.S. trade deficit.

Over the medium-term horizon, while the U.S. economy would be expected to rebound toward the latter half of 1988, growth would be lower than assumed in the base case. The U.S. economy would average 2.5 per cent growth during the 1988-1990 period, as opposed to 3.0 per cent in the base case.

Slower growth in the U.S. would, in turn, induce slower growth in the Ontario economy over the medium term. Real growth in Ontario would average 2.2 per cent annually between 1988-1990, down from 3.1 per cent in the base case.

- Slower U.S. growth would directly reduce export growth which in turn will have an adverse multiplier effect on consumption.
- Business investment would also be adversely affected as a result of both weaker domestic demand and exports.

The 1988-1990 Ontario Economy: Alternative Scenario I **Table 10**

	Average Real Growth (%)	Average Inflation Rate (%)	Average Job Creation (000s)	1990 Unemployment Rate (%)
Base Case	3.1	3.9	103	5.5
Low Growth	2.2	3.8	87	6.6

Source: Ontario Ministry of Treasury and Economics.

Alternative Scenario II: Higher U.S. Growth

In this scenario, improved international co-ordination of economic policy, with the objective of generating more rapid and better balanced growth, is assumed to lead to a stronger world economy. The U.S. trade deficit declines significantly, as Japan and Western Europe adopt more stimulative economic policies. Growth in the U.S. would rise to 3.7 per cent in 1987 from 2.9 per cent in the base case.

- Faster growth would help bring down the U.S. budgetary deficit, reducing the pressure for fiscal restraint.
- A stronger U.S. economy would buy more of the goods and services produced in the rest of the world, including Ontario.

Table 11 shows the short-term effects on the Ontario economy of more rapid American growth.

The Ontario Economy in 1987: Alternative Scenario II **Table 11**

	Real Growth (%)	Inflation (%)	Job Creation (000s)	Unemployment Rate (%)
Base Case	3.6	3.5	114	6.7
High Growth	4.5	4.0	127	6.6

Source: Ontario Ministry of Treasury and Economics.

- Faster growth in Ontario would bring the unemployment rate down more rapidly.
- Consumer spending would be stimulated by falling unemployment, stronger income growth and the boost to consumer confidence resulting from a healthier world economy.
- Ontario industries benefitting most directly and immediately from a stronger U.S. and world economy would include transportation equipment, mining and metals, forest products, machinery and electrical products. To a lesser extent, industries oriented to consumer goods and services would also benefit.

Over the medium term, 1988-1990, the U.S. economy would be expected to grow at an average annual rate of 3.8 per cent. Stronger U.S. growth would facilitate a more rapid decline in the U.S. federal deficit, in turn permitting the Federal Reserve Board to loosen monetary policy. This would result in lower interest rates than assumed in the base case.

As in the short-run, Ontario would reap significant benefits. Real annual growth in Ontario would average 3.6 per cent, 0.5 percentage points higher than in the base case.

- Initially, exports would be stimulated the most. Subsequently, consumption would be stimulated by stronger income growth and

investment would be enhanced by increased domestic and foreign demand.

- Canadian interest rates would fall in line with U.S. rates and provide further stimulus to both the consumer and business sectors.
- The unemployment rate would drop to 5.2 per cent by 1990, as compared to 5.5 per cent in the base case. The additional decline in the unemployment rate due to higher growth would be moderated to some extent by more rapid labour force growth.
- Inflation would be somewhat higher, averaging 4.5 per cent between 1988-1990, 0.6 percentage points higher than in the base case. This reflects the impact of the stronger domestic and international economic environment on commodity prices and wages.

The 1988-1990 Ontario Economy: Alternative Scenario II **Table 12**

	Average Real Growth (%)	Average Inflation (%)	Average Job Creation (000s)	1990 Unemployment Rate (%)
Base Case	3.1	3.9	103	5.5
High Growth	3.6	4.5	111	5.2

Source: Ontario Ministry of Treasury and Economics.

The following table consolidates the scenarios for the Ontario economic outlook for both the short and medium term.

Summary of Scenarios **Table 13**

	Real Growth (%)	Inflation (%)	Job Creation (000s)	Unemployment Rate (%)
1985 Actual	4.7	4.0	159	8.0
1986 Forecast	4.1	4.0	156	7.0
1987				
Base Case	3.6	3.5	114	6.7
Alternative Scenario I	1.5	3.3	65	7.8
Alternative Scenario II	4.5	4.0	127	6.6
1988-90*				
Base Case	3.1	3.9	103	5.5
Alternative Scenario I	2.2	3.8	87	6.6
Alternative Scenario II	3.6	4.5	111	5.2

Source: Statistics Canada and Ontario Ministry of Treasury and Economics.

* Annual averages, except for the unemployment rate which is for 1990.

Ontario Fiscal Review

Revenue Structure*

This section provides a brief overview of Ontario's revenue structure and describes some of its key characteristics.

Composition of Provincial Revenues

The Province has a broad range of revenue sources including taxation, transfer payments from the federal government, other budgetary revenue and non-budgetary sources.

The three major taxation sources – personal income tax, corporation taxes, and retail sales tax – contribute 55 per cent of estimated total 1986-87 revenues. Taxation of gasoline and diesel fuels contribute a further 4.0 per cent. In total, approximately 63 per cent of 1986-87 revenue will be raised through taxation.

Transfer payments from the federal government account for 16 per cent of 1986-87 revenue. Within federal transfer payments, Established Programs Financing and Canada Assistance Plan payments account for 59 per cent and 22 per cent respectively.

Other budgetary revenue sources include OHIP premiums, fees and licences, LCBO profits, interest on investments and lottery profit revenue. These sources contribute 16 per cent of this year's revenue.

Non-budgetary revenues, including net deposits in trust accounts and net repayments of loans and investments, account for the remaining 5.0 per cent of total revenue.

The Major Taxation Sources

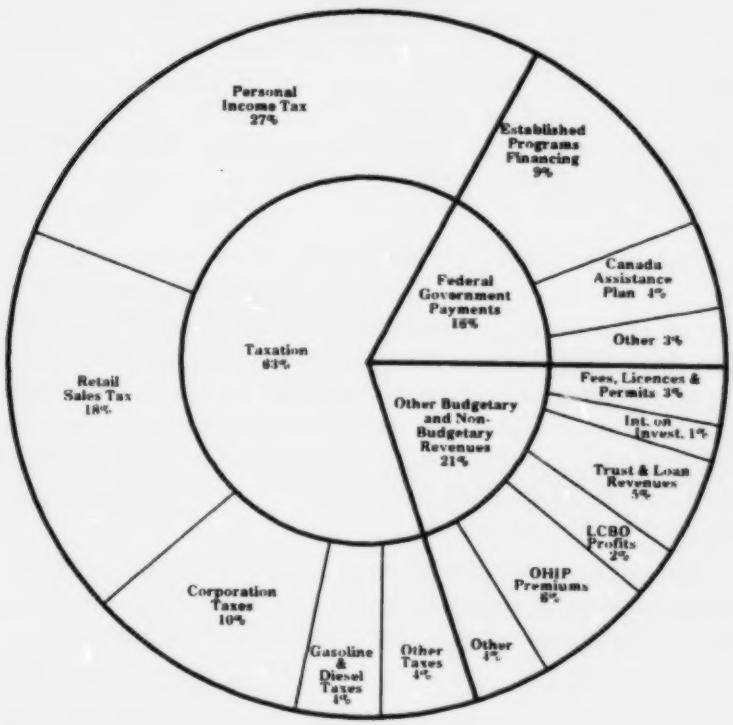
Personal Income Tax

Under the terms of a Tax Collection Agreement between the two governments, the federal government collects and administers the Ontario Personal Income Tax (PIT) on behalf of the Province. The federal government determines the tax base. Basic Federal Tax is calculated by applying a marginal rate structure to this base. Total federal tax is then determined by applying federal surtaxes and credits. Ontario PIT is defined as a proportion of Basic Federal Tax. For 1986, the Ontario rate is 50 per cent. In addition, a surtax of 3.0 per cent is applied to Ontario tax in excess of $5,000. Ontario income tax accounts for roughly one-third of an individual's total income tax.

With limited exceptions, such as social assistance payments and lottery winnings, all sources of income are subject to tax. Deductions and exemptions are provided for certain personal and income earning expenses.

* All Ontario revenue figures for 1986-87 are based on the September 30, 1986, Ontario Finances.

COMPOSITION OF ONTARIO'S REVENUES
1986-87*



*Forecast

Source: Ontario Ministry of Treasury and Economics.

Provisions in the PIT system also support investment and saving for retirement.

The federal marginal tax rates for 1986, including the impact of federal surtaxes, range from 6.1 per cent in the lowest bracket to 37.9 per cent on income in the highest tax bracket. Ontario marginal rates, before consideration of surtaxes, are one-half of the basic federal rates. Actual Ontario rates after incorporating the Ontario surtax rise to a maximum of 17.5 per cent for 1986. Combining the two rate structures yields a 1986 maximum total marginal rate of 55.4 per cent.

Ontario has implemented special programs to relieve tax burdens on low-income Ontarians. The Ontario Tax Reduction removes from the 1986 tax roll 350,000 individuals with taxable income of $1,630 or less. Another 40,000 individuals with taxable income between $1,630 and $1,760 pay reduced Ontario tax. There is no comparable federal tax reduction for low-income taxpayers. In addition, Ontario provides refundable Property and Sales Tax Credits that will return $275 million to Ontario taxpayers in 1986-87. The Property Tax Credit, claimed by the spouse with the higher taxable income, is equal to $180 plus 10 per cent of property tax or 2.0 per cent of rent. The Sales Tax Credit is calculated as 1.0 per cent of personal exemptions. These credits are collectively reduced by 2.0 per cent of taxable income. Over 90 per cent of these tax credit benefits are received by individuals earning less than $20,000.

Corporate Taxes

The Province of Ontario levies three general taxes on the corporate sector: Corporations Income Tax, Capital Tax and Insurance Premiums Tax. All corporations in Ontario, with the exception of insurance companies, are required to pay Capital Tax based on their paid-up capital. Insurance companies pay Insurance Premiums Tax based on the amount of premiums received in respect of Ontario policies. Mining companies are subject to the Mining Tax.

The largest amount of corporate revenue is generated through the Corporations Income Tax (CIT). Ontario determines the CIT base and rate structure for the Province. Although significant differences have existed from time to time, Ontario's current base essentially parallels the federal corporate income tax base. Tax is imposed on gross corporate revenues earned in the taxation year less allowable expenses. Various corporate activities receive special treatment through lower rates or accelerated deductions. Capital Taxes and Insurance Premiums Taxes are deductible expenses for income tax purposes.

The 1986 general Corporations Income Tax rate is 15.5 per cent of taxable income. Income from manufacturing and processing operations, mining, logging, farming and fishing is taxed at the rate of 14.5 per cent.

Eligible small businesses are exempt from income tax in the first three years of their operation and pay tax at a 10 per cent rate thereafter.

Ontario, as well as Alberta and Quebec, administers its own Corporations Income Tax. All other provinces have entered into tax collection agreements with the federal government.

Retail Sales Tax

The Retail Sales Tax (RST) is payable on the sale of most goods and on certain services. The tax is calculated as a specific percentage of the final sale price to the consumer (including any federal levies). Since 1973, the general RST rate applying to most taxable items has been set at 7.0 per cent. Three other rates apply to specific items and services: 5.0 per cent on transient accommodation; 10.0 per cent on admission fees over $4 and beverage alcohol products sold at licensed establishments; and 12 per cent on beverage alcohol products sold at retail outlets.

A number of items are specifically exempt from RST. The most notable include groceries, energy used for heating and lighting, children's clothing, prescription drugs, specific reading material and production machinery and equipment. Most services are excluded from the RST tax base.

Ontario's RST base and rates are determined by the Province. Registered vendors collect the tax as agents of the Province and remit it to the government.

Motive Fuel Taxes

Ontario levies tax on motive fuels under the authority of two Acts - the Gasoline Tax Act and the Fuel Tax Act. Under both Acts, the tax base is applied to conventional petroleum-based products. Non-conventional fuels

such as natural gas, propane, alcohol (used alone or blended with another fuel) and other manufactured gases are exempt.

Fuel taxes are levied on a per litre basis. The Provincial tax is 8.3 cents per litre on gasoline purchased in Ontario. This tax applies to licensed motor vehicles, snowmobiles and pleasure marine craft. Farming, commercial fishing, industrial, commercial, institutional, heating and cooking uses qualify for an exemption or a full rebate of taxes paid, provided that the fuel is consumed off-road.

A 1.88 cent per litre tax applies to all aviation fuels purchased in Ontario.

Diesel fuel purchased in Ontario for use in licensed on-road motor vehicles is subject to tax of 9.9 cents per litre. As with the gasoline tax, certain off-road uses qualify for a full rebate of tax paid or are exempt at the time of purchase. A system of fuel colouration is in place to distinguish diesel fuels sold for exempt purposes, such as farming.

Tax of 3.1 cents per litre is applied to diesel fuel purchased in Ontario to power railroad locomotives.

Per Point Yields

Table 1 illustrates the 1986-87 revenue yield of selected revenue sources on a per point basis. The yields reflect a full year's revenue and in each case the tax points relate to a specific base.

Per Point Yield, 1986-87
($ Million)

Table 1

Retail Sales Tax		
7% - General	712	
5% - Transient Accommodation	7	
12% - Alcohol (Retail Outlets)	27	
10% - Alcohol (Licensed Premises) and Admission Fees	16	
Personal Income Tax	171	
Corporate Income Tax		
15.5% - General	71	
14.5% - Manufacturing and Processing, Fishing, Logging and Farming	65	
10% - Small Business	37	
Capital Tax	136	Per 1/10 point
Tobacco Tax	11	1¢ per pack of 20
Motive Fuel Taxes		
Gasoline & Aviation Fuel	133	1¢ per litre
Road and Rail Diesel	33	1¢ per litre
OHIP Premiums (Individual and Family)	56	Per $1/$2
Land Transfer Tax	36	Per 1/10 point

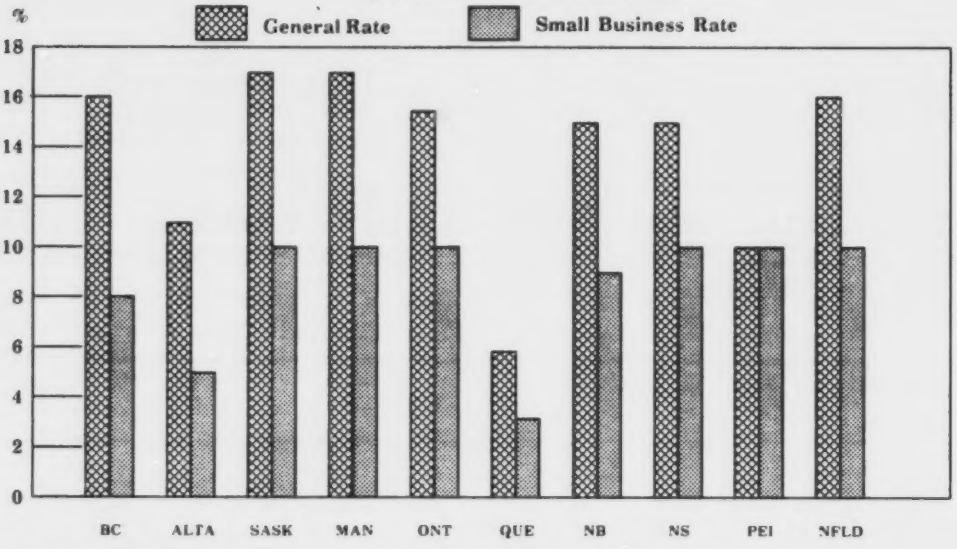
Note: See text for interpretation of these data.
Source: Ontario Ministry of Treasury and Economics.

For example, one percentage point on the general RST rate yields approximately $712 million. The per point yield of the PIT is illustrated as an incremental percentage of Basic Federal Tax, and each percentage yields $171 million.

Interprovincial Comparison

As illustrated in the following chart, Ontario's general and small business corporate income tax rates are comparable with those in most Canadian provinces but are above rates in Alberta and Quebec.

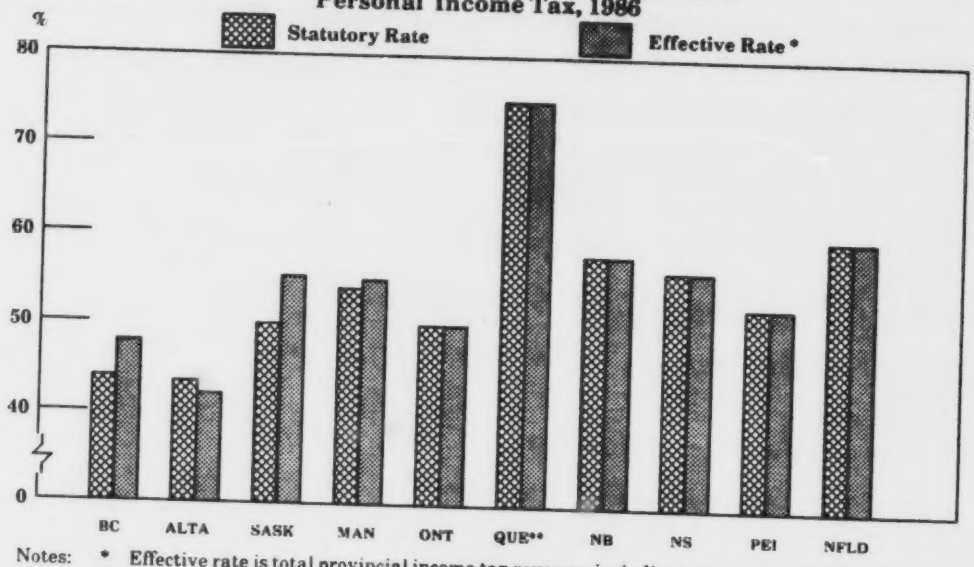
INTERPROVINCIAL TAX COMPARISON:
Corporation Income Tax, 1986



Source: Ontario Ministry of Treasury and Economics and provincial tax statutes.

Provincial personal income tax rates and provincial personal income tax revenues as a percentage of Basic Federal Tax are illustrated below. Ontario's effective rate is 50.1 per cent, including the 1986 surtax.

INTERPROVINCIAL TAX COMPARISON:
Personal Income Tax, 1986



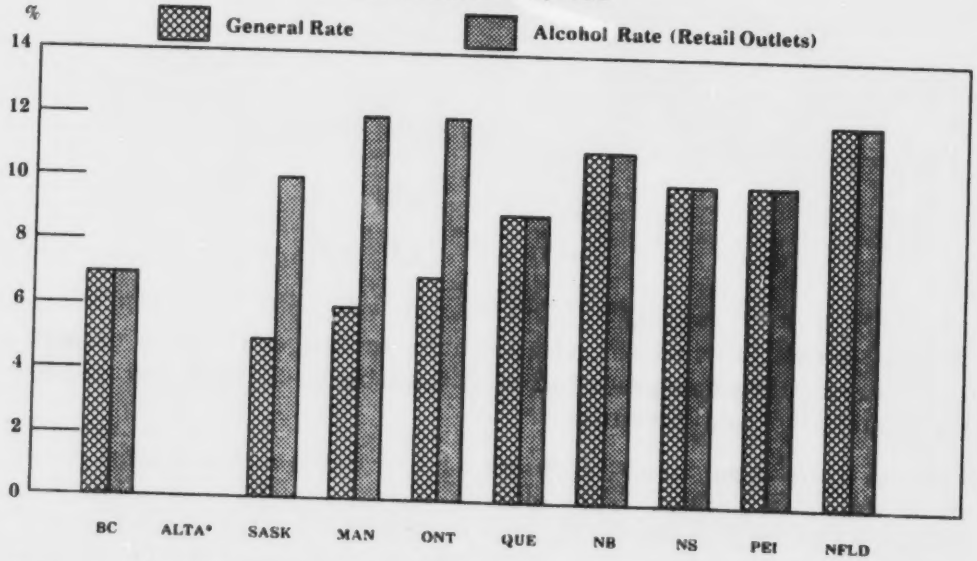
Notes: * Effective rate is total provincial income tax revenue, including any surtaxes and net of any tax reductions, as a percentage of Basic Federal Tax assessed in the province.

** Estimated rate; Quebec does not impose tax as a percentage of Basic Federal Tax.

Source: Ontario Ministry of Treasury and Economics and provincial tax statutes.

The general retail sales tax rates in Canada range from zero per cent in Alberta to 12 per cent in Newfoundland. Ontario's rate is approximately in the middle of the range at 7.0 per cent.

INTERPROVINCIAL TAX COMPARISON:
Retail Sales Tax, 1986



Note: * No provincial sales tax is imposed.

Source: Ontario Ministry of Treasury and Economics and provincial tax statutes.

Straight rate comparisons must, however, be used with caution. Differences in the taxable base are particularly important in interprovincial

comparisons of RST. Significant interprovincial differences in RST exemptions also exist in areas such as advertising, insurance premiums, transient accommodation and personal services.

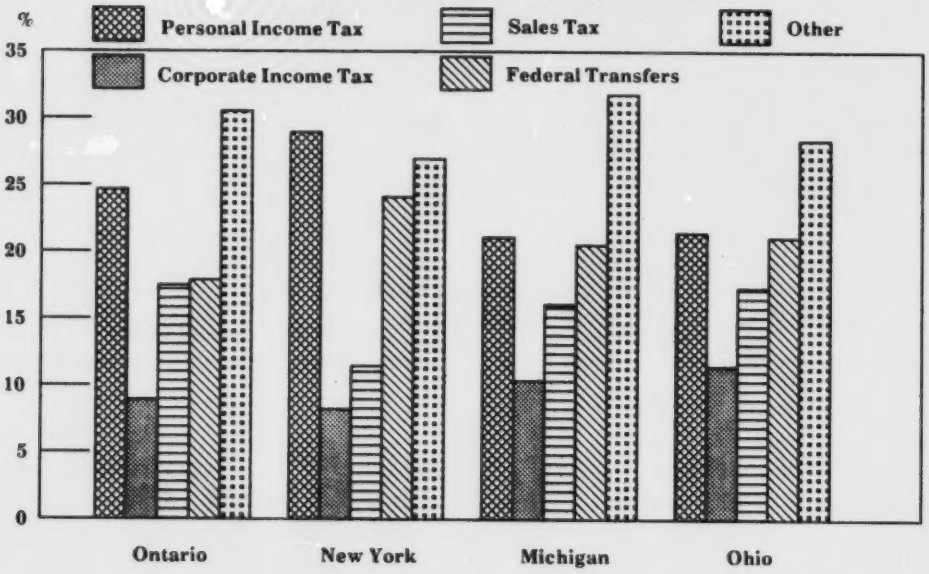
Relative tax rates in these major tax areas also reflect the approach taken in each province to support health care expenditures. Ontario, Alberta and British Columbia raise additional revenue through Health Insurance Premiums ranging from $168 annually for a single individual in Alberta to $357 for an individual in Ontario. Quebec and Manitoba levy payroll taxes.

Ontario and Neighbouring U.S. Jurisdictions

The Revenue Structures

The following chart illustrates the composition of 1984-85 revenues in Ontario and the states of New York, Michigan and Ohio.

INTERJURISDICTIONAL COMPARISON:
Shares of Total Revenue, 1984-85



Source: Ontario Ministry of Treasury and Economics and the financial statements of U.S. States.

All four jurisdictions rely heavily on the revenues generated by corporation taxes, personal income taxes and sales taxes as these three sources account for about half of total revenues.

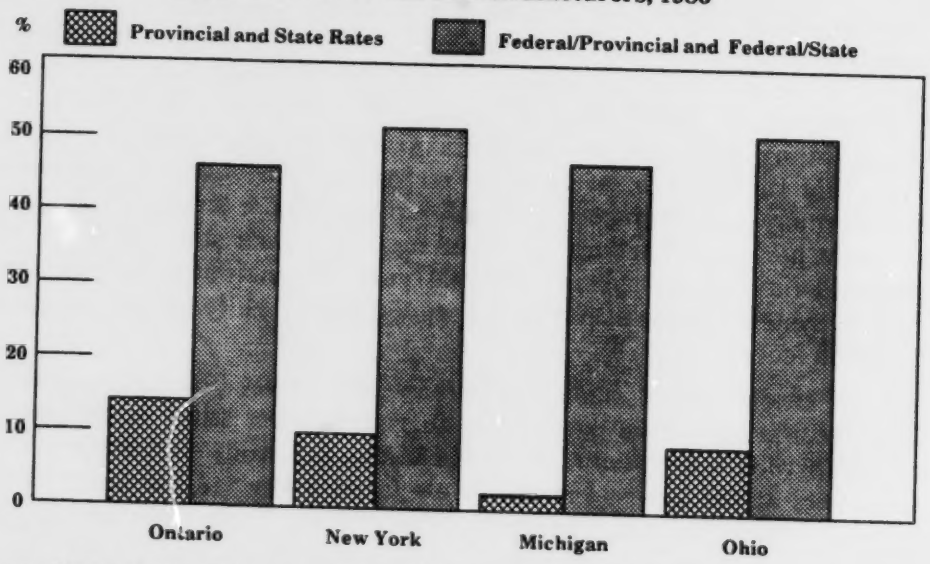
Federal transfer payments represent a major contribution to total revenues in all four jurisdictions. For Ontario, federal transfers represent a lower proportion of total revenues than is the case in the U.S. jurisdictions. In 1984-85 for example, transfers from Ottawa accounted for 18 per cent of total Ontario revenues, while all three U.S. jurisdictions received over 20 per cent of their revenues from federal transfer payments.

Differences in U.S. states' and Ontario's reliance on various revenue sources is further illustrated in a comparison of the jurisdictions' major tax rates.

Corporate Income Taxation

The combined federal-provincial and federal-state corporate tax rates on manufacturers in Ontario and in selected U.S. states are illustrated in the chart below. The federal tax rates in Canada and the U.S. are 41.5 per cent and 46 per cent respectively. The Canadian federal tax rate includes the impact of the 1986 corporate surtax which is 5.0 per cent of federal tax payable. The combined federal-state tax rates reflect the deductibility of state corporate taxes for the purposes of calculating federal taxes. In Canada, provincial taxes are not deductible. In lieu of deductibility, corporations are allowed a 10 per cent provincial tax abatement against the federal statutory rate.

INTERJURISDICTIONAL TAX COMPARISON:
Corporate Income Tax on Manufacturers, 1986



Source: Ontario Ministry of Treasury and Economics, Canadian and United States federal tax statutes and Ontario and state tax statutes.

There are also differences between the U.S. and Canada in calculating the tax base for purposes of corporate income tax. For example, the method of calculating depreciation for tax purposes differs considerably.

Sales Taxation

General sales tax rates in each of the four jurisdictions are compared in Table 2. In contrast to the sales tax systems in Canada, some American municipalities have the authority to impose sales taxes and special levies related to municipal undertakings such as rapid transit. As with the interprovincial analysis, however, these rate comparisons must be used with caution as there are differences in tax bases.

Interjurisdictional Sales Tax Rate Comparison, 1986 **Table 2**
(Per Cent)

Jurisdiction	Rate	Maximum Local Rate	Maximum Combined Rate
Ontario	7	N/A	7
New York	4	4.25	8.25
Michigan	4	N/A	4
Ohio	5	2.5	7.5

Source: Ontario Ministry of Treasury and Economics, Canadian and United States federal tax statutes and Ontario and state tax statutes.

Personal Income Taxation

A meaningful comparison of the Ontario and U.S. personal income tax systems is difficult. While both tax systems generally have the same objective (taxing income) and employ similar approaches (marginal tax rates) in achieving this objective, the two systems are fundamentally different. First, there are significant differences in the taxable income bases. Many of the tax preferences available to Americans in 1986 are not available in Ontario. (On a lesser scale, the reverse is also true.) Furthermore, all provinces in Canada except Quebec levy provincial income tax as a per cent of federal tax. In the U.S., each state controls its own personal income tax system and can vary it considerably from the U.S federal system. Some states tax income directly while others calculate tax based on federal tax.

Despite these limitations, a quantitative comparison of representative tax filing scenarios can be performed. Ontario's latest study of this nature is based on 1983 tax systems. In broad terms, the study showed that Ontario taxpayers at the lowest income levels faced lower tax burdens than their counterparts in the neighbouring states of New York, Ohio and Michigan. In the middle income range, tax burdens were similar in all jurisdictions. At upper income levels, Ontario taxpayers paid considerably more income related taxes.

Tax Reform

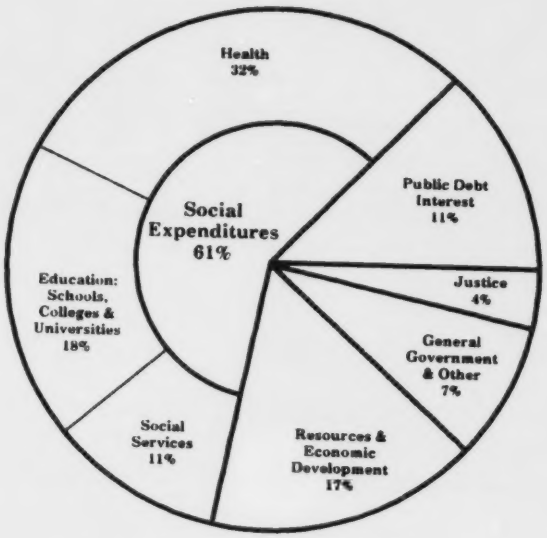
A comprehensive overhaul of the U. S. federal tax system is expected to be in place by January 1987. The tax reform package lowers personal and corporate income tax rates, broadens the tax bases and results in a shift in tax burden from individuals to corporations. These changes will alter the relative tax burdens between Ontario and the U.S. states as discussed above.

The federal government in Canada has recently indicated its commitment to comprehensive tax reform in this country. While it is far from clear what the final package will be, the potential exists for significant changes in the tax burdens of Canadian individuals and businesses.

Expenditure Structure*

Provincial expenditures support a wide range of programs, services and capital projects. This spending will amount to approximately $31.8 billion in 1986-87. Key components of Ontario's expenditures are shown in the following graph.

DISTRIBUTION OF ONTARIO'S EXPENDITURES
1986-87 *



*** Forecast**
Source: Ontario Ministry of Treasury and Economics.

Expenditures on social programs will account for 61 per cent of Provincial spending. These social expenditures include funding to support Ontario's health care and education systems, as well as social assistance programs and services.

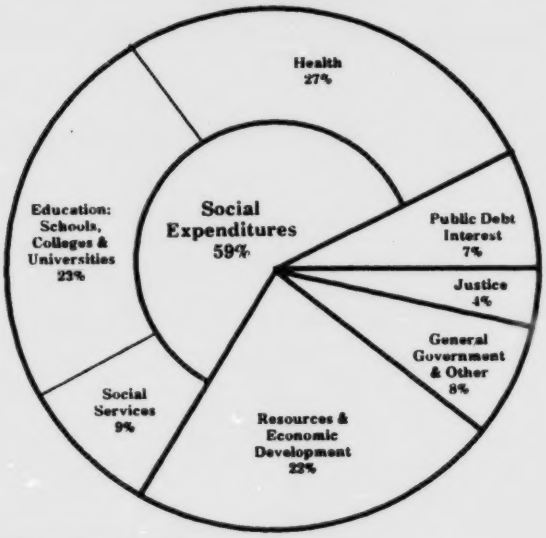
Provincial spending in support of resources and economic development will represent 17 per cent of Ontario's expenditures. This portion includes funding for the maintenance and construction of the transportation system, forest management programs, industrial and agricultural assistance programs, environmental protection and skills training.

Expenditures to support the administration of justice, the operation of Government and the Legislature will together account for 11 per cent. Interest payments on the public debt will represent another 11 per cent of Provincial spending this year.

The distribution of Ontario's expenditures has changed since 1976-77. The key components are shown in the following graph.

* All Ontario Expenditure figures for 1986-87 are based on the September 30, 1986, Ontario Finances.

DISTRIBUTION OF ONTARIO'S EXPENDITURES
1976-77



Source: Ontario Ministry of Treasury and Economics.

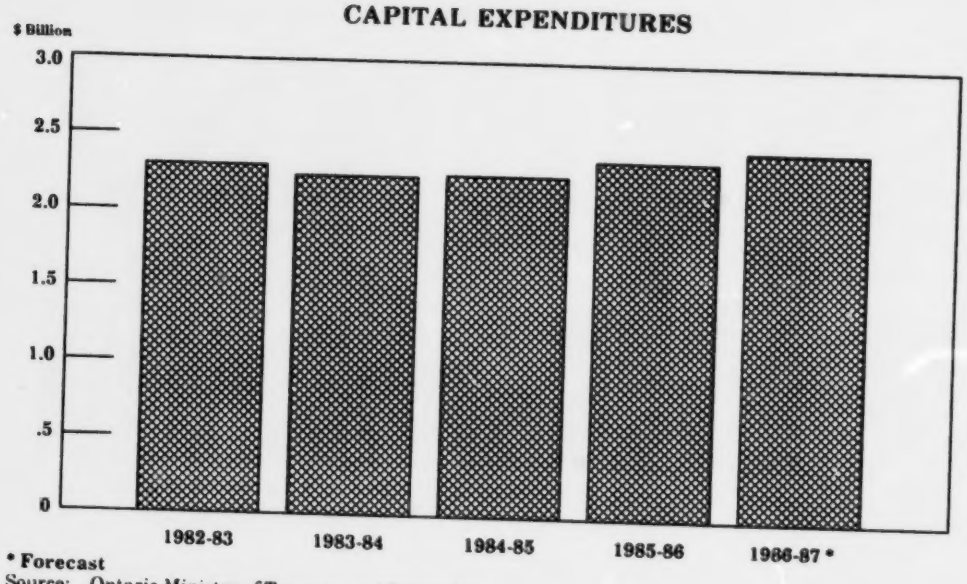
Expenditure on the Health, Social Services, Public Debt Interest components have increased as a proportion of the total spending while that of Education, Resources and Economic Development has declined since 1976-77.

Capital Expenditures

The Provincial Government directly, or indirectly through transfer payments, will provide $2.4 billion for capital investments in 1986-87. Capital expenditures support the construction of roads, water and sewage facilities, hospitals, day nurseries and educational facilities. Also included is the purchase of transit equipment and joint capital projects with private industry.

During the five-year period from 1982-83 to 1986-87 capital spending ranged between $2.2 billion and $2.4 billion.

CAPITAL EXPENDITURES



* Forecast
Source: Ontario Ministry of Treasury and Economics.

Fiscal Performance

Ontario's fiscal performance will be measured in terms of a number of the commonly used indicators. A 10 year review of Selected Financial and Economic Statistics can be found in the Appendix.

Net Cash Requirements

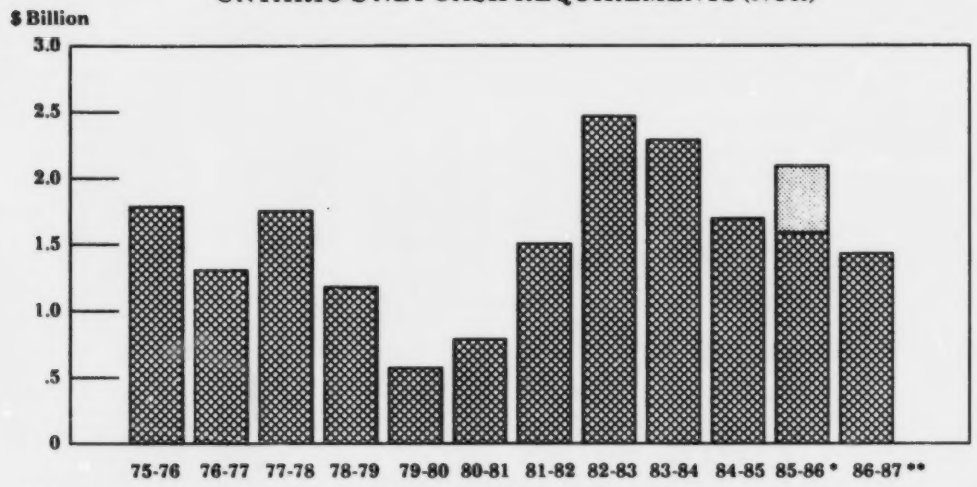
Net cash requirements (NCR) represent the shortfall between total revenues and total expenditures. Ontario's net cash requirement levels are a reflection of overall economic performance, stabilization policies and total spending.

Beginning in 1975, Ontario's NCR experienced a downward trend which resulted in a low of $0.6 billion in 1979-80. In the early 1980s, a deterioration of world economic conditions had an adverse impact on Provincial finances, eventually leading to a NCR of almost $2.5 billion in 1982-83. In that fiscal year, NCR as a proportion of total Provincial spending rose to 10.8 per cent, up from the 1979-80 proportion of 3.7 per cent.

Net cash requirements in 1986-87, at slightly more than $1.4 billion, are projected to be $1.0 billion less than the 1982-83 peak. As well, net cash requirements are expected to decline to 4.5 per cent of total spending.

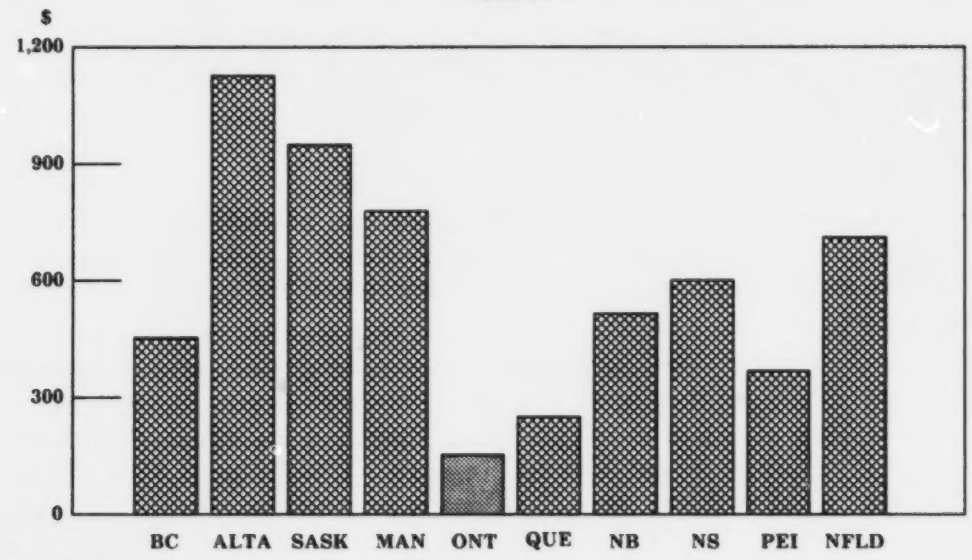
Ontario's net cash requirements per capita, at $157, are estimated to be the lowest among the provinces in 1986-87. It should be noted that this comparison has certain limitations in that financing for Crown corporations, public service pension funds and health insurance programs are treated differently by several provinces.

ONTARIO'S NET CASH REQUIREMENTS (NCR)



*Note: The shaded area represents NCR after extraordinary adjustments.
** Forecast
Source: Ontario Ministry of Treasury and Economics.

NET CASH REQUIREMENTS PER CAPITA
1986-87 *

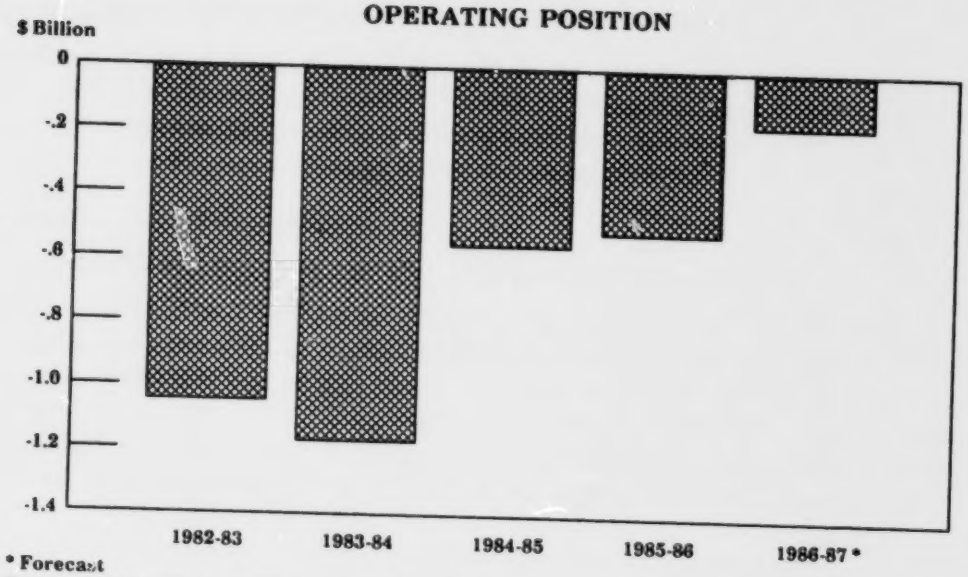


* Forecast
Source: Ontario Ministry of Treasury and Economics.

Operating Position

The operating position is the difference between total current revenues and total current expenditures excluding capital expenditures. The operating position reflects the degree to which the Province pays for its day-to-day operating needs from its current revenues.

Ontario's operating position will improve from a $1.0 billion operating deficit in 1982-83 to $0.2 billion in 1986-87.



Source: Ontario Ministry of Treasury and Economics.

Total Debt as a Per Cent of Gross Provincial Product

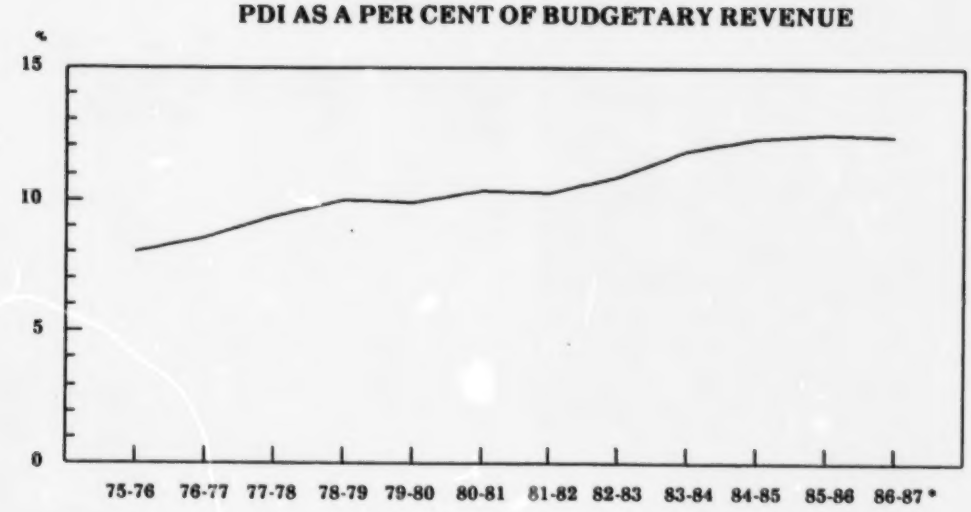
Ontario's total debt comprises funded and unfunded debt. Funded debt has a specified term to maturity and is secured by a debt instrument such as a bond or Treasury Bill. Unfunded debt is not secured by debt instruments.

The capacity of a government to carry its debt is largely determined by the underlying strength of the economy and tax revenues. The ratio of total debt to GPP rose to 18.4 per cent in 1978-79 and then fell to 16.8 per cent in 1981-82. It increased to 18.4 per cent in 1985-86 and is forecast to fall to 18.3 per cent in 1986-87.

Public Debt Interest

Public debt interest (PDI) costs for servicing total debt have absorbed an increased share of Provincial revenues. PDI costs have grown from 8.0 per cent of budgetary revenues in 1975-76 to an estimated 12.4 per cent in 1986-87.

PDI AS A PER CENT OF BUDGETARY REVENUE

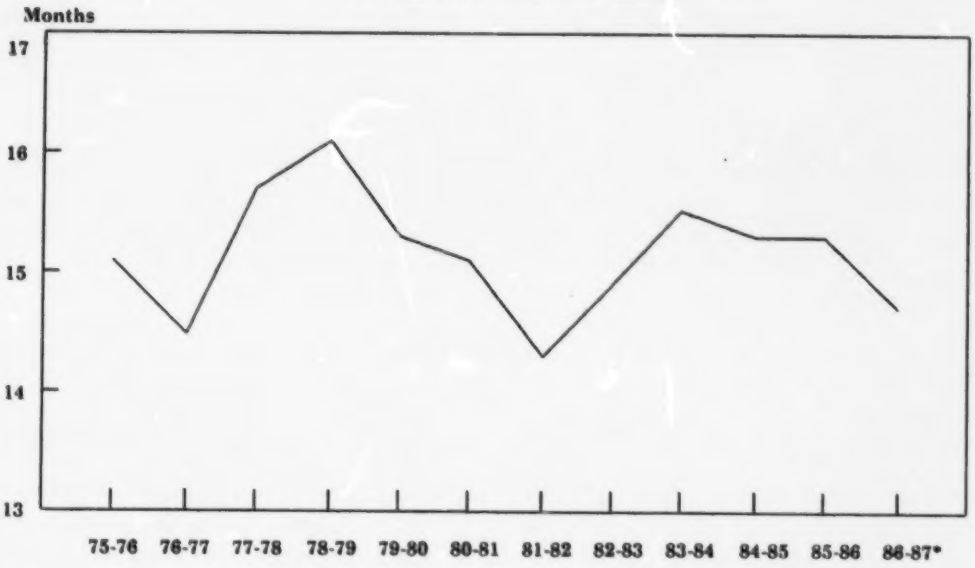


* Forecast
Source: Ontario Ministry of Treasury and Economics.

Months of Budgetary Revenue Required to Repay Total Debt

Since 1975-76, the number of months of budgetary revenue required to repay total debt has ranged from a high of 16.1 months in 1978-79 to a low of 14.3 months in 1981-82. It would take 14.7 months of budgetary revenue to repay total debt in 1986-87.

MONTHS OF BUDGETARY REVENUE TO REPAY TOTAL DEBT



* Forecast
Source: Ontario Ministry of Treasury and Economics.

Fiscal Capacity and Tax Effort

Fiscal capacity measures the relative ability of a province to raise revenues from available revenue sources. Tax effort measures the relative extent that each province taxes those available revenue sources. In this section, these measures are used to make interprovincial comparisons.

Determination of Fiscal Capacity

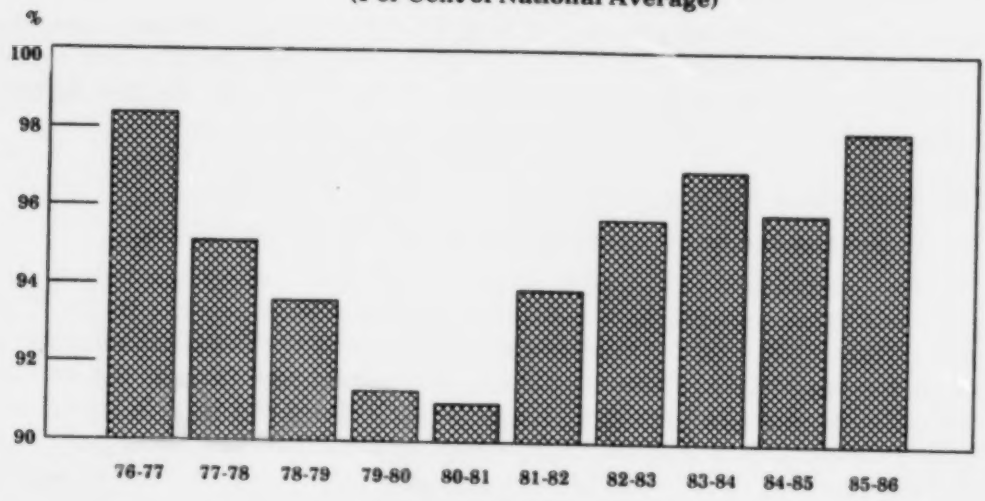
Fiscal capacity can be measured by a number of different indices.

The Representative Tax System (RTS) is the one used by the federal and provincial governments as a measurement of fiscal capacity. In the RTS, each revenue source has an associated tax base and the fiscal capacity can be related to population. For example, the base for tobacco taxes is the number of cigarettes sold in a province. If a province's share of a base is lower than its population share, that province is said to have a fiscal capacity deficiency in that tax base. If the opposite is true, a fiscal capacity surplus exists. In other words, a province has a fiscal capacity deficiency in a tax base if its per capita share of a base is less than the national average.

Tax bases are defined according to the taxing practices of provinces. For example, if an item such as infants' clothing is exempt from the retail sales tax in a majority of the provinces, such sales would not be included in the tax base. Hence, the term "representative".

Employing data from the federal equalization program, it is possible to derive an aggregate tax base share by "adding" together 39 different provincial and local tax bases. This provides a single but comprehensive measure of a province's relative fiscal capacity. In 1985-86, Ontario's fiscal capacity, measured on this basis for provincial own-source revenues, was 98 per cent of the national average. The chart below indicates how Ontario's fiscal capacity has varied over the past ten years. The range of fiscal capacities in 1985-86 was 59.7 per cent for Newfoundland to 199.6 per cent for Alberta. The fiscal capacities of Saskatchewan and British Columbia also exceeded the national average. The natural resource tax base continues to account for their high rankings.

FISCAL CAPACITY OF ONTARIO
(Per Cent of National Average)



Source: Department of Finance and Ontario Ministry of Treasury and Economics.

As Table 3 shows, if federal transfer revenues are added to provincial own-source revenue, the fiscal capacity of "have-not" provinces approaches the national average. Since federal transfers are relatively greater for the "have-not" provinces, the relative fiscal capacities of the "have" provinces decline. For example, Ontario's 1985-86 fiscal capacity declines almost 7.0 percentage points to 91.1 per cent of the national average, primarily because the Province does not receive federal equalization payments.

Indices of Provincial-Local Fiscal Capacity, 1985-86 **Table 3**

(Per Cent of National Average)

	Provincial-Local Own-Source Revenue	Provincial-Local Own-Source Revenues plus All Federal Transfers
Newfoundland	59.7	91.4
Prince Edward Island	60.8	93.1
Nova Scotia	72.0	89.4
New Brunswick	67.1	92.2
Quebec	79.3	91.5
Ontario	**98.0**	**91.1**
Manitoba	81.3	90.1
Saskatchewan	104.7	99.8
Alberta	199.6	172.8
British Columbia	104.3	99.1
National Average	100.0	100.0

Source: Department of Finance.

Included in the determination of federal transfers are special contracting-out tax points that Quebec opted for in lieu of a portion of federal cash contributions under the Canada Assistance Plan and Hospital Insurance. The latter contributions were subsequently rolled into Established Programs Financing.

Determination of Tax Effort

A comparison of provincial tax rates on individual revenue sources is often employed as a gauge of relative revenue-raising efforts. However, such comparisons alone do not provide a way of assessing a province's overall tax effort.

As with the determination of fiscal capacity, tax effort can be measured by individual revenue sources. For each revenue source, a national average tax rate can be calculated by dividing the provincial revenues collected by the total all-province tax base.

A comprehensive measure of tax effort can be calculated by dividing a province's share of total provincial-local revenues by its share of total tax base. In order to determine a province's share of the aggregate tax base, each of the revenue sources must be weighted to reflect the relative importance that is attached to them individually. For example, if Personal Income Tax (PIT) revenues account for 26 per cent of the total ten-province revenues, the weight of PIT in the comprehensive tax base would be 26 per cent. Each province's share of this weighted tax base is calculated by multiplying its percentage share of the PIT base by this weighted percentage. In the case of Ontario, the Province's share of the PIT base, 41 per cent, is multiplied by the weighted PIT base of 26 per cent to derive Ontario's percentage share of the PIT portion of the comprehensive tax base (i.e., 10.7 per cent). Ontario's share of the comprehensive tax base is determined by summing together the individual percentage shares of the 39 revenue source comprehensive tax base components.

This measure of tax effort indicates to what extent a province is taxing what is available to be taxed, relative to the national average. Local revenues are included because of the varying responsibilities that individual provinces allocate to their local governments. Table 4 provides the indices of relative tax effort for 1985-86 on this comprehensive basis.

Indices of Provincial-Local Tax Effort, 1985-86 **Table 4**
(Per Cent of National Average)

Newfoundland	103.8
Prince Edward Island	91.0
Nova Scotia	96.7
New Brunswick	98.1
Quebec	125.8
Ontario	**100.7**
Manitoba	104.6
Saskatchewan	99.3
Alberta	74.5
British Columbia	92.4
National Average	100.0

Source: Department of Finance.

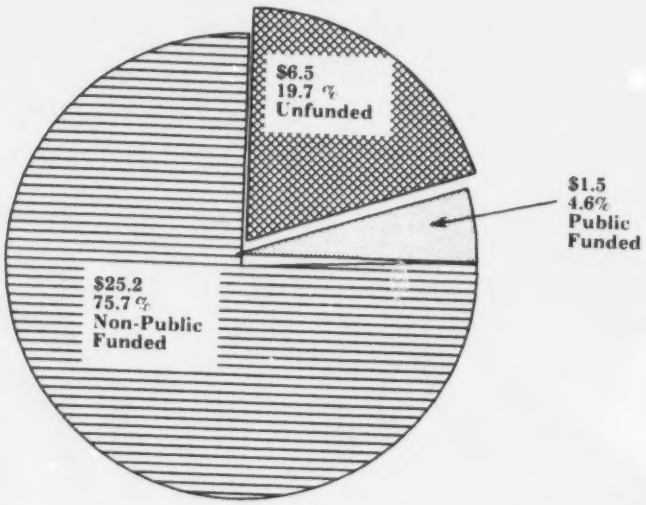
Ontario's overall tax effort is approximately at the national average. Alberta's tax effort is about 25 per cent below the national average, mainly because it levies no sales or gasoline tax, and has the lowest personal income tax. Since Alberta's share of oil and gas revenues is about the same as its share of oil and gas tax bases, its resource taxation does not bias its tax effort one way or another.

Quebec has a very high tax effort, some 26 percentage points above the national average in 1985-86. Despite high rates of taxation on certain revenue sources, the Maritime provinces do not have a high degree of overall tax effort, due in large part to their relatively low levels of local property taxation.

Debt and Debt Financing*

Ontario's Debt

COMPOSITION OF ONTARIO'S OWN-PURPOSE TOTAL DEBT
March 31, 1986
($ Billion)



Source: Ontario Ministry of Treasury and Economics.

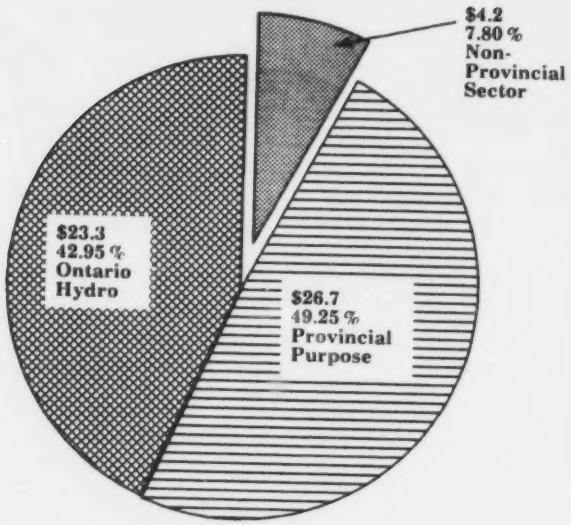
Ontario's own-purpose total debt consists of funded and unfunded debt. Funded debt, the largest portion, has a specified term to maturity and is secured by a debt instrument such as a bond or Treasury Bill. Ontario's funded debt is concentrated in non-public debt, owed primarily to the Canada Pension Plan (CPP) and the Teachers' Superannuation Fund (TSF) in the form of long-term, non-marketable securities at market-related rates of interest. Debt owed to the general public is about 5.0 per cent of the Province's total debt. The Province's estimated funded debt at March 31, 1987 will be $28 billion of which about 90 per cent will be owed to the CPP and TSF.

Unfunded debt refers to obligations that are not secured by a debt instrument such as deposits with the Province of Ontario Savings Office and for the Public Service Superannuation Fund. Unfunded debt represents about 20 per cent of Ontario's total debt, up from 15 per cent ten years ago. Ontario's own-purpose total debt will be about $35.4 billion by the end of fiscal 1986-87 compared to $14.5 billion ten years ago.

* All Ontario debt figures for 1986-87 are based on the September 30, 1986, Ontario Finances.

Consolidated Public Sector Funded Debt

CONSOLIDATED PUBLIC SECTOR FUNDED DEBT
March 31, 1986
(Interim, $ Billion)

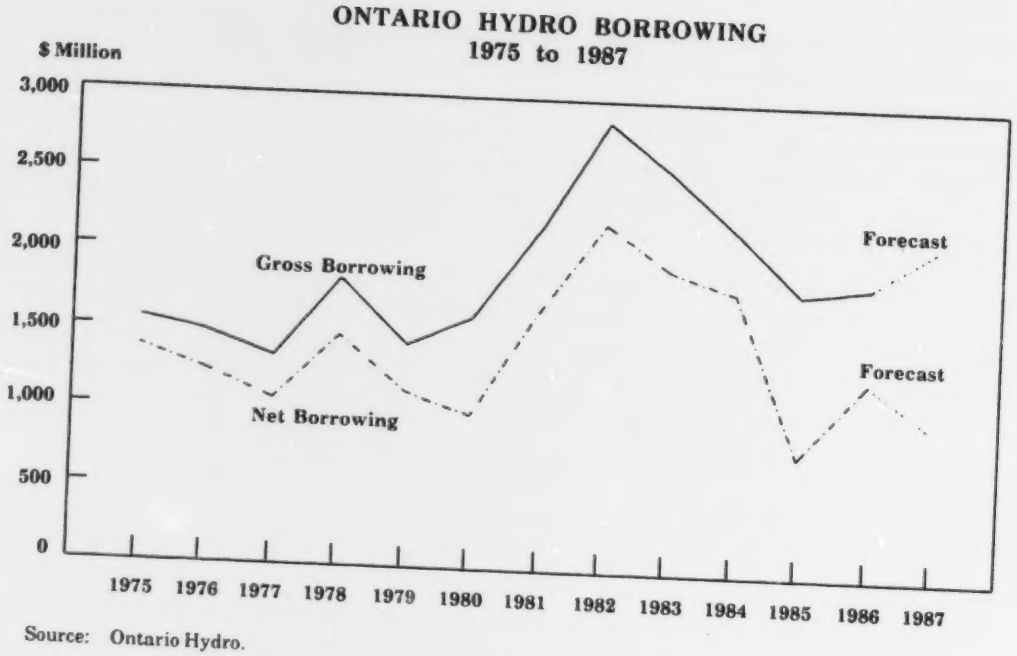


Source: Ontario Ministry of Treasury and Economics.

The broadest measure of funded debt in the Ontario public sector is Consolidated Public Sector Funded Debt which includes debt incurred at all levels of provincial jurisdictions. The preponderance of Provincial and Provincially guaranteed debt in this measure illustrates Ontario's policy of centralizing public sector financing at the Provincial level. Ontario's direct and guaranteed funded debt, which is over 90 per cent of the consolidated debt, consists of obligations for the Province's own purpose or for Ontario Hydro. Due to Ontario's policy of centralized financing, there is a limited requirement for public borrowing by local bodies, universities, colleges and hospitals. Internal funds and Provincial grants finance a large proportion of local capital expenditures, with the remainder financed by borrowing. Local government debt is about 5.0 per cent of consolidated funded debt while less than one-half of one per cent consists of the obligations of universities, colleges and hospitals. The Provincial (direct and guaranteed) share of Consolidated Public Sector Funded Debt has been rising over time reflecting the policy of centralized financing.

Hydro Borrowing

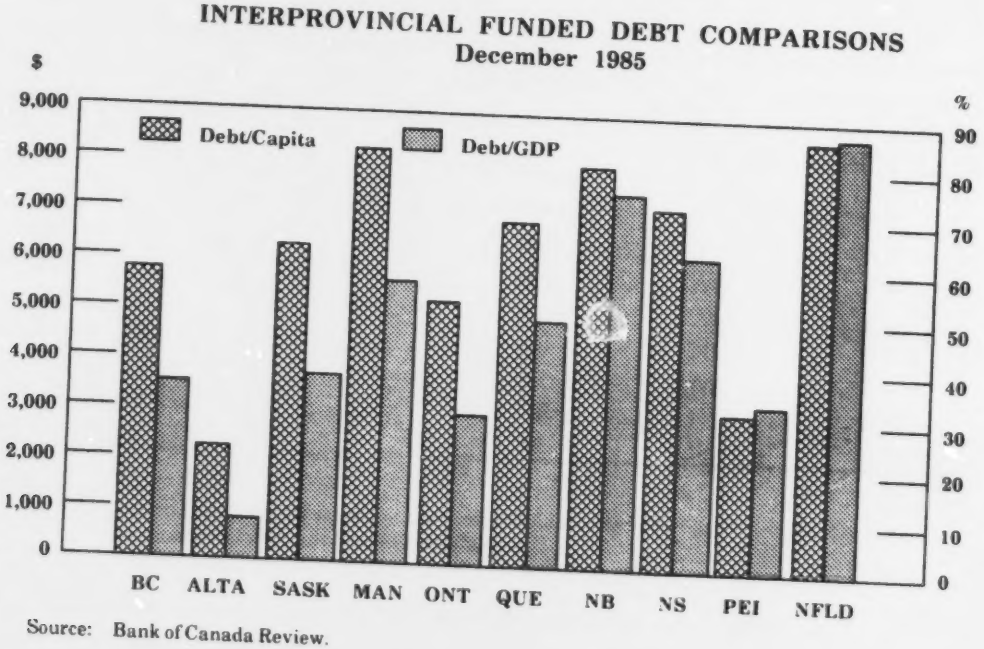
In 1986 and 1987, Ontario Hydro's gross borrowing is expected to be around $2 billion per year, with borrowing net of retirements falling to an average of about $1.1 billion per year. Even though it is unlikely that Hydro's gross borrowing needs will put undue pressure on the capital markets, the Province will continue to monitor Hydro's financing needs and plans to



Source: Ontario Hydro.

ensure that they are consistent with the Province's fiscal and financial plans.

Interprovincial Comparisons



Source: Bank of Canada Review.

Interjurisdictional debt comparisons usually focus on funded debt measures because this assures a standard of conceptual uniformity and comparability

across jurisdictions and over time. Similarly, in order to avoid the inconsistencies caused by provinces assuming different types of debt at different levels of the public sector, the sum of funded debt owed by a province and debt guaranteed by a province is used in interprovincial comparisons. Nevertheless, the comparisons remain limited by differences in treatment across provinces of sinking funds and purchases by public sector investment funds such as the Alberta Heritage Fund.

Ontario's direct and guaranteed debt burden is relatively low compared to other provinces. In 1985, Ontario owed $5,241 per person. This was the third lowest level of direct and guaranteed debt per capita in Canada, higher only than Prince Edward Island and Alberta. Ontario had the second lowest level of debt as a per cent of Gross Domestic Product (30 per cent), after Alberta.

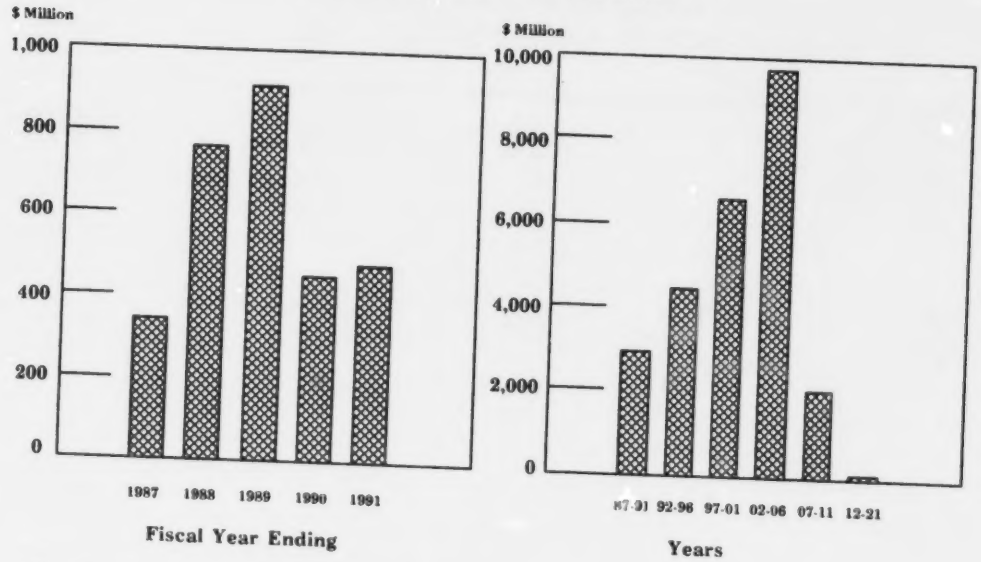
Ontario's Financing

The Province of Ontario has available for its financing purposes the funds of the Teachers' Superannuation Fund (TSF) and Ontario's share of the Canada Pension Plan (CPP) as well as domestic and international capital markets. Because of the structure of contributions and benefits of these two pension plans, they have been a growing source of financing for Ontario. In 1986-87, non-public availability exceeded the Province's needs and consequently, Ontario has not taken all of the CPP funds available to it.

Ontario's Maturing Debt

Approximately 11 per cent of Ontario's funded debt (excluding Treasury Bills) is scheduled to mature in the five-year period from March 1987 to March 1991 and 29 per cent in the ten years from 1987 to 1997. In the next five years, maturities (excluding Treasury Bills) will average about $600 million per year of which $400 million represents retirements of Canada Pension Plan obligations.

ONTARIO DEBT MATURITY



Source: Ontario Ministry of Treasury and Economics.

Credit Worthiness

Provincial Ratings
October 1986 **Table 5**

	Standard and Poor's (S&P)	Moody's	Canadian Bond Rating Service (CBRS)
British Columbia	AA	Aa1	AA
Alberta	AA+	Aa1	AAA
Saskatchewan	AA	A1	AA
Manitoba	A+	A1	AA-
Ontario	AA+	Aaa	AAA
Quebec	AA-	Aa3	A
New Brunswick	A+	A1	A
Nova Scotia	A-	A2	A-
Prince Edward Island	NR*	A3	BBB+
Newfoundland	A-	Baa1	BBB

* Not Rated.

Source: Ontario Ministry of Treasury and Economics, Canadian Bond Rating Service, Moody's Bond Survey and Standard and Poor's CreditWeek.

The 1980s have been a period of general pressure on Canadian provincial credit ratings. Since 1985, seven provinces have been downgraded by Standard and Poor's and Moody's, two U.S. rating agencies, because their economic performance has been weak or their fiscal and financial performance has not matched their economic improvements.

In mid-1986, Ontario was upgraded by the Canadian Bond Rating Service to an unqualified AAA from AAA-. In addition, Moody's raised Quebec to Aa3 from A1 and New Brunswick to A1 from A2.

Rating Adjustments in 1985 and 1986 **Table 6**

		Rating Change
British Columbia	Downgraded from:	AA+ to AA (S&P)
Alberta	Downgraded from:	Aaa to Aa1 (Moody's) AAA to AA+ (S&P)
Saskatchewan	Downgraded from:	AA+ to AA (S&P) Aa1 to Aa3 (Moody's) Aa3 to A1 (Moody's) AA+ to AA(CBRS)
Manitoba	Downgraded from:	AA- to A+ (S&P) Aa to A1 (Moody's)
Ontario	Downgraded from: Upgraded from:	AAA to AA+ (S&P) AAA- to AAA (CBRS)
Quebec	Upgraded from:	A1 to Aa3 (Moody's)
Nova Scotia	Downgraded from:	A to A- (S&P)
New Brunswick	Upgraded from:	A2 to A1 (Moody's)
Newfoundland	Downgraded from:	A to A- (S&P) BBB+ to BBB (CBRS)

Source: Ontario Ministry of Treasury and Economics, Canadian Bond Rating Service, Moody's Bond Survey and Standard and Poor's CreditWeek.

Federal-Provincial Funding Programs

The following sections describe the two major programs through which the Province receives substantial federal funding: the fiscal arrangements and the Canada Assistance Plan.

Federal-Provincial Fiscal Arrangements

Introduction

The federal-provincial fiscal arrangements are the institutional vehicles through which the federal government transfers funds to the provinces as part of its historical commitment to certain national shared-cost programs, and to the principle of interprovincial fiscal capacity equalization. The largest of these payments is made in respect of health care and post-secondary education under EPF. Funds are also transferred under the Equalization program, the Fiscal Stabilization program, and the Personal Income Tax Revenue Guarantee.

Although often discussed in terms of federal-provincial negotiation and agreement, it should be noted that the fiscal arrangements are under the sole legislative and administrative control of the federal government. Every five years, legislation in this area is drafted and enacted by the federal government, and requires no provincial enabling legislation, support or even agreement to operate. In practice, however, Ottawa has consulted with the provinces on potential revisions to the legislation prior to enactment. Although these negotiations are currently underway, the 1987 fiscal arrangements legislation is not expected to differ fundamentally from what is now in place.

Established Programs Financing

Adopted in 1977 to replace the federal-provincial shared-cost programs in the fields of health and post-secondary education, EPF was regarded as a milestone in co-operative federalism in Canada. The essence of the new arrangement was that the provinces, long dissatisfied with the cumbersome and inflexible nature of the cost-sharing arrangements, were given greater policy and administrative latitude through a move to block funding. At the same time, Ottawa lessened its financial risk by tying its contributions to the rate of growth of the national economy rather than to provincial expenditures.

At a Conference of First Ministers held in June 1976, the broad framework for EPF was introduced. At that time, the Prime Minister outlined five principles that would form the basis of the federal approach*:

* Statement tabled by Prime Minister of Canada, the Right Honourable Pierre Elliott Trudeau, on the occasion of the Conference of Federal and Provincial First Ministers, held at Ottawa, June 14 and 15, 1976.

- The federal government should continue to pay a substantial share of program costs.
- The federal payment should be calculated independently of provincial program expenditures.
- There should be greater equality, in per capita terms, in the federal contributions to the provinces.
- The arrangements for the mature programs should be placed on a more permanent footing.
- There should be provision for continuing federal participation in the development of policies of "national significance" in health and post-secondary education.

The Prime Minister also emphasized that the federal government intended to encourage provincial spending restraint through the new arrangement.

There was widespread provincial acceptance of most of these principles, and a federal-provincial consensus on the course that was being charted. However, shortly after the new arrangement had been agreed upon, the federal government decided to keep track of the individual cash components of the transfers for health and post-secondary education. While not consistent with the principle of block funding, the split was for federal bookkeeping purposes only and did not require provinces to demonstrate that they had, in fact, spent the funds in these areas.

The Canada Health Act is illustrative of federal government attempts to "reconditionalize" EPF. Passed by Parliament in 1984, the Act sets program criteria and conditions of payment for the cash portion of transfers paid to the provinces for insured health care services and extended health care. Under the terms of the legislation, each province's health insurance plan must satisfy federal requirements respecting comprehensiveness, portability, universality, accessibility and public administration.

The federal government is empowered to withhold a portion of the provincial transfer payments equal to the amount that physicians bill above the rates set out in the provincial fee schedules. Dollar for dollar deductions are also imposed on provinces which permit user charges. Between July 1984 and June 1986, over $106 million in payments to Ontario were withheld by the federal government. The Province has since complied with the conditions of the Canada Health Act by eliminating extra-billing for insured health services, and has recouped the amount withheld.

As shown in Table 7, the federal government has taken a number of further actions to restrain the growth of its payments to the provinces. When the fiscal arrangements were amended in 1982, the Revenue Guarantee Compensation, which was built into EPF as part of the 1977 agreement, was removed. This effectively eliminated a portion of the per capita entitlements.

EPF transfer growth is based on both growth in the economy and population increases for individual provinces. Under the two-year federal "6 & 5"

restraint program introduced in June 1982, per capita limits were imposed on post-secondary education transfer growth.

Most recently, the federal government's Bill C-96, An Act to amend the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977, received Royal Assent in June 1986. It reduces the annual growth in per capita EPF transfers by two percentage points. In 1986-87, Bill C-96 will reduce Ontario's EPF entitlements by $317 million. Taken together, the reductions in EPF entitlements for Ontario amount to $642 million in 1986-87.

Provincial Losses Due To Federal EPF Cuts Since 1982 **Table 7**

($ Million)

	Elimination of Revenue Guarantee Compensation		"6 & 5" Caps on PSE Transfers		Reduction of EPF Escalator	
	Ontario	All Provinces	Ontario	All Provinces	Ontario	All Provinces
1982-83	294	828	–	–	–	–
1983-84	325	914	45	125	–	–
1984-85	357	999	94	264	–	–
1985-86	384	1,071	101	283	–	–
1986-87	417	1,158	110	306	115	317
TOTAL	1,777	4,970	350	978	115	317

Source: Department of Finance and Ontario Ministry of Treasury and Economics.

Federal support for Ontario health and post-secondary education programs has fallen from a peak of 52 per cent of provincial spending for these purposes in 1979-80, to about 43 per cent in recent years. Because EPF tax point transfers are derived from provincial taxpayers, they can be regarded as provincial revenues. Thus, if the federal contribution is considered solely in terms of the EPF cash component, then Ottawa's current share of combined health and post-secondary education spending in Ontario would amount to only 25 per cent, down from 30 per cent in 1979-80.

Equalization

Equalization payments are unconditional transfers from the federal government to qualifying provinces, with the purpose, as enshrined in Section 36 of the Constitution Act, 1982, of ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. The

actual determination of equalization entitlements has evolved over the years by refinements and adjustments to the formula since the inception of the program in 1957. Although there have been disagreements about these changes, some of which had quite dramatic effects, all provinces have supported the overall thrust of the program.

Ontario has never been an equalization recipient. Indeed, when oil price shocks created this possibility, these equalization payments were prevented through retroactive legislative amendment in 1981.

Determining the extent to which the goals of equalization are being achieved is difficult due to the lack of a definition or measure of "reasonably comparable levels of public services at reasonably comparable levels of taxation". As was discussed in the section on fiscal capacity and tax effort, the equalization program takes into account 39 distinct revenue sources. These sources and the estimated provincial revenues to be equalized for 1986-87 are summarized in Table 8.

Fiscal Equalization, 1986-87 **Table 8**

($ Billion)

Revenue Source	Amounts Subject to Equalization
Personal Income Tax Revenues	22.1
Business Income Revenues	4.6
Capital Tax Revenues	1.2
General and Miscellaneous Sales Taxes	13.5
Tobacco Taxes	2.0
Gasoline Taxes	2.6
Diesel Fuel Taxes	0.7
Non-Commercial Vehicle Licences	1.2
Commercial Vehicle Licences	0.5
Revenues from the Sale of Spirits	1.6
Revenues from the Sale of Wine	0.5
Revenues from the Sale of Beer	0.8
Hospital and Medical Insurance Premiums	2.2
Succession Duties and Gift Taxes	*
Race Track Taxes	0.1
Natural Resource Revenues **	4.3
Insurance Premium Revenues	0.5
Payroll Taxes	1.9
Provincial-Local Property Tax Revenues	16.1
Lottery Revenues	0.9
Miscellaneous Provincial-Local Taxes and Revenues	7.5
Shared Revenues: Undistributed Income on Hand	*
Shared Revenues: Off-shore Activities	*
TOTAL	84.9

Notes: * Less than $50 million.
** The 17 separate natural resource revenue sources have been aggregated.

Source: Department of Finance, Provincial Fiscal Equalization, Second Estimate, 1986-87 (July, 1986).

This set of revenue sources is known as the Representative Tax System (RTS), since it attempts to take into consideration what provinces, as a

whole, actually tax. Each of the revenue sources has an associated tax base. For example, the base for revenues from the sale of beer is the volume of beer sold.

The tax bases have been modified over the years. Discussions continue on technical problems that are perceived to remain in the determination of appropriate components to use in some tax bases to satisfy the requirement of making them "representative". For example, there is currently a debate on the property tax base; since there is no comparable interprovincial property tax base, the equalization formula has had to rely on proxies for the assessed values of land and buildings. The particular proxies used in the property tax base are the subject of some concern. For instance, the use of Gross Domestic Product (GDP) as a proxy for residential land values has been criticized since the housing component of GDP is relatively insignificant.

For each revenue source, a national average tax rate is calculated by dividing the total revenues to be equalized by the total all-province tax base. Comparisons can be made among provinces by applying the national average tax rate for each revenue source to individual provincial tax base values on a per capita basis.

The equal yield per capita standard that the equalization formula sets must then be determined.

The current benchmark that is applied to each province for each revenue source is termed the "five-province standard"; this standard is derived by applying the national average tax rate to the tax bases of Quebec, Ontario, Manitoba, Saskatchewan and British Columbia and calculating the per capita yield for the five provinces.

Finally, the difference between this standard per capita yield and a province's own per capita yield provides its relative per capita deficiency or surplus for each of the 39 sources.

Two examples to illustrate this process:

- In calculating the latest estimate for 1985-86 national average tax rates, the Newfoundland provincial income tax (PIT) base yields $431.71 per capita. The national average tax rate applied to the five-province standard tax base yields $815.40 per capita. This means that Newfoundland has a PIT deficiency of $383.69 per capita ($815.40 - $431.71). Newfoundland's equalization component in respect of PIT, $223 million, is then calculated by multiplying its per capita deficiency by its population.

- Conversely, Ontario's yield at the national average tax rate is $920.21 per capita. Since this yield is above the $815.40 per capita that results from applying the national average tax rate to the five-province standard, Ontario has a PIT excess of $104.82 per capita.

The calculation of a deficiency for a province for a particular revenue source does not necessarily mean that the province will receive equalization payments. The size of equalization entitlements is determined by the

netting of all negative and positive entitlements. In Ontario's case, for example, although the formula indicates a deficiency in the oil and gas revenue sources, negative entitlements in other sources are sufficiently large to negate entitlement to equalization on an aggregate basis.

The current "five-province standard" replaced a national average standard in 1982. This change, combined with a number of tax base modifications, tended to disadvantage Quebec and Manitoba. Accordingly, a three-year transitional guarantee was incorporated into the formula.

The transitional guarantee provided that no province could receive less under the new formula than it received in the last year of the old formula. Provision was made for a specified amount of growth.

This provision lapsed at the end of the 1984-85 fiscal year, at an estimated three-year cost to the federal government of $2.1 billion. All equalization recipients received transitional guarantee payments.

As shown in Table 9, following the lapse of the transitional program, additional supplementary equalization payments totalling $220 million were made to the six recipient provinces in respect of the 1985-86 fiscal year. One year later, Manitoba received an additional $65 million in supplementary equalization.

Supplementary Equalization Payments **Table 9**
($ Million)

	1985-86	1986-87
Newfoundland	15	–
Prince Edward Island	5	–
Nova Scotia	20	–
New Brunswick	20	–
Quebec	110	–
Manitoba	50	65
TOTAL	220	65

Source: Department of Finance.

The sole legislative constraint on the growth of equalization entitlements is that aggregate transfers must not exceed the year-over-year increase in Gross National Product (GNP). So far, this ceiling has not had to be applied.

For 1986-87, the current estimate of equalization entitlements is $5.3 billion. Although Quebec receives the greatest share of total equalization, on a per capita basis it receives the least. Table 10 shows the breakdown of the estimated 1986-87 entitlements among the provinces as well as the entitlements on a per capita basis.

Estimated Equalization Entitlements by Province, 1986-87 **Table 10**

	$ Million	$ Per Capita
Newfoundland	670	1,151
Prince Edward Island	139	1,082
Nova Scotia	610	687
New Brunswick	640	885
Quebec	2,737	413
Manitoba	504	467
TOTAL	5,300	529

Notes: Ontario, Saskatchewan, Alberta and British Columbia have net negative entitlements and do not receive equalization payments.

Manitoba's entitlement includes $65 million in supplementary payments.

Source: Department of Finance, Provincial Fiscal Equalization, Second Estimate, 1986-87 (July, 1986).

Fiscal Stabilization

In order to protect provinces from sudden year-over-year losses in revenue resulting from an economic downturn, the federal government has provided for fiscal stabilization payments. These unconditional cash transfers ensure that each province's tax revenues, measured on the basis of constant tax rates and structure, plus its equalization payments, will not be less than they were in the previous year.

To date, only one province has received payments under this program -- British Columbia received $175 million in respect of the 1982-83 fiscal year. However, fiscal stabilization payments provide an important guarantee for many provinces when their credit ratings are under review.

Personal Income Tax Revenue Guarantee

Provincial Personal Income Tax Revenue Guarantee payments ensure that provinces will not suffer a reduction in personal income tax revenues due to amendments to the federal Income Tax Act. Should federal actions reduce a province's personal income tax revenues by more than 1.0 per cent from the preceding year, that province becomes eligible for a federal revenue guarantee payment. The amount of the payment would be the difference, exceeding 1.0 per cent, between the amount of tax which would have been raised under the federal legislation prior to amendment and the amount raised subsequent to amendment.

Canada Assistance Plan

The Canada Assistance Plan (CAP) was established by federal legislation in 1966 as a cost-sharing mechanism for provincially-administered social assistance and welfare programs. CAP replaced the existing targetted shared-cost programs which provided assistance for the elderly, the blind, the disabled and the unemployed. By the end of the 1960s, these programs had come under increasing criticism for their eligibility restrictions. The new program was designed to bring a measure of order and coherence to fragmented provincial public assistance systems.

Since its inception, payments under CAP have grown dramatically, increasing from $343 million in 1967-68 to $4 billion in 1985-86. This makes CAP the third largest source of transfers to the provinces after Established Programs Financing and Equalization. In Ontario alone, CAP payments will exceed $1 billion for 1985-86.

CAP is intended to act as a last resort safety net. Under its provisions, the federal government contributes an amount equal to 50 per cent of provincial expenditures on assistance payments (food, shelter and clothing) to individuals in need, and a range of welfare services, including child welfare, day care, homemaker services for the elderly, institutions for the disabled and family counselling. To qualify for federal CAP funds, provincial programs must be designed to benefit those "in need or likely to become in need". As well, potential beneficiaries must demonstrate their eligibility through either a needs test or an income test, as determined by each province and subject to federal guidelines.

Although the Canada Assistance Plan stands out as a highly successful example of federal-provincial co-operation, the program has been the subject of numerous reviews during the last two decades. In 1970-71, the Senate Committee on Poverty issued a report that was critical of CAP and recommended that it be replaced by a guaranteed annual income. Ten years later, negotiations were underway to remove social services from CAP and provide them through a block fund under a proposed Social Services Financing Act modelled on EPF. The proposal, however, was withdrawn when the provinces refused to accept a reduction in the EPF escalator to GNP growth less one per cent. The proposal to replace the federal share of CAP and other federal tax and transfer programs, such as family allowances and child tax credits, with a guaranteed annual income, was resurrected by the Macdonald Commission in 1985 when it recommended the adoption of a Universal Income Security Program.

More recently, the Nielsen Task Force on Program Review found no support for a major revision of CAP. However, its report did register concern over the trend toward long-term dependence on assistance among "employables" and warned of the danger that future CAP costs may become unaffordable as a result. The Nielsen review concluded that it may be necessary to change the open-ended nature of CAP funding by limiting federal spending under the agreement. Increasingly, the limits inherent in CAP's welfare orientation are becoming more evident as priorities in the areas of child care and family violence are pushed to the foreground.

Provincial-Local Transfers

In 1986-87, the Province will provide $3.4 billion in financial support to municipalities and municipal agencies, as indicated in Table 11. Program assistance ranges from a low of a few thousand dollars to a high of almost $800 million, and is made available through more than 100 programs.

Provincial support to school boards amounts to more than $3.4 billion, including some $100 million in capital assistance.

Highlights of Provincial Transfers to Local Governments — **Table 11**

($ Million)

	Outlook 1986-87
Transfers to Municipalities	
Unconditional	
Roads	780
Transit	547
Social Services	261
Health	1,050
Environmental	160
Recreational & Cultural	112
Other	75
Ontario Municipal Improvement Fund	361
Total Municipal Transfers	60
	3,406
Transfers to School Boards	
General Legislative Grants	3,329
Capital Grants	108
Total School Transfers	3,437
Total Transfers to Local Government	6,843

Source: Ontario Ministry of Treasury and Economics.

Transfers to Municipalities

Transfer payments to municipalities are estimated to increase by 5.4 per cent in 1986-87.

The average annual growth in Provincial support to the municipal sector has outpaced inflation since the beginning of the decade. As Table 12 indicates, total operating transfers increased faster than the rate of inflation, while the growth in capital transfers was lower than the growth in

CPI, reflecting the fairly stable pattern of Provincial capital activity in general.

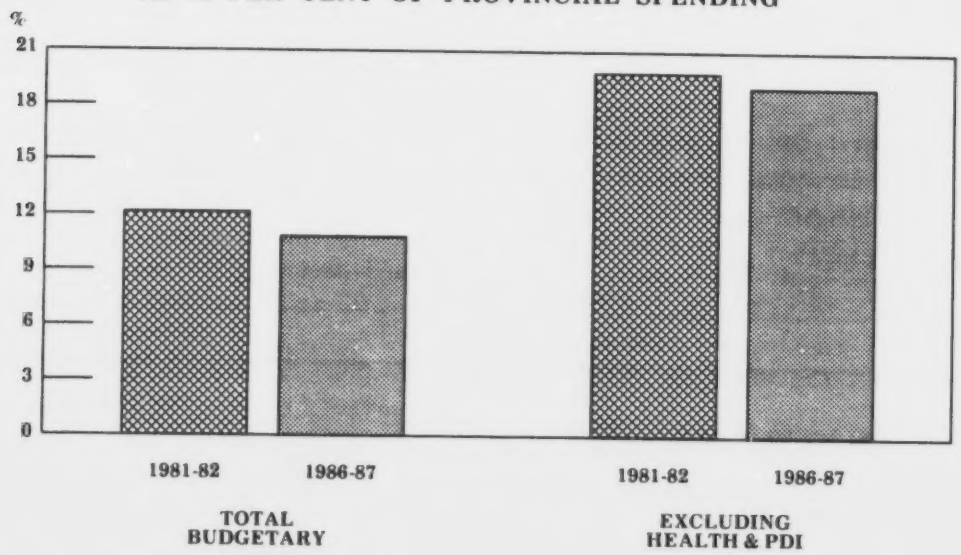
Provincial Transfers to Municipalities **Table 12**

($ Million)

	1981-82	Outlook 1986-87	Average Annual Increase (%)
Unconditional	637	780	4.1
Conditional	943	1,671	12.1
Total Operating	1,580	2,451	9.2
Capital	813	895	1.9
Total Transfers	2,393	3,346	6.9
Ontario Municipal Improvement Fund	-	60	-
Enriched Total Transfers	2,393	3,406	7.3

Source: Ontario Ministry of Treasury and Economics.

PROVINCIAL TRANSFERS TO MUNICIPALITIES AS A PER CENT OF PROVINCIAL SPENDING



Source: Ontario Ministry of Treasury and Economics.

Municipal Sector Performance

Municipal spending in 1986 is expected to grow by 7.9 per cent. This growth is being led by the areas served by regional government and by Metro

Toronto, which account for 71 per cent of municipal spending. These areas are generally experiencing above-average service growth as measured by the growth in households. It should also be noted that individual municipal patterns of growth within these areas can vary considerably. By comparison, Table 13 shows that for the rest of the province, spending growth is expected to average around 6.8 per cent.

Estimated Municipal Spending, 1985 & 1986 **Table 13**

($ Million)

	1985	1986	Increase (%)
Metropolitan Toronto	3,110	3,364	8.1
Other Regional Governments	3,633	3,946	8.6
All Regional Governments	6,743	7,310	8.4
Cities Not Part of Regional Governments	1,357	1,441	6.2
All Other Municipalities	1,450	1,556	7.3
Non-Regional Governments	2,807	2,997	6.8
Total Municipal Sector	9,550	10,307	7.9

Source: Ontario Ministry of Municipal Affairs.

Since 1981, Provincial transfers have almost kept pace with the growth in overall local spending. As shown in Table 14, the proportion of municipal financing accounted for by transfers has dropped slightly over the period, with the difference being made up by municipal property taxes.

Municipal Revenue Mix **Table 14**

(Per Cent)

	1981	1986
Property Taxation	35.3	36.7
Provincial Grants	31.4	30.9
All Other Revenues	33.3	32.4
	100.0	100.0

Source: Ontario Ministry of Municipal Affairs.

Since 1970, property tax burdens (taxes in relation to household incomes) have remained below the 3.0 per cent level, and are now approximately 2.6 per cent. However, over the past three years, overall mill rate increases (including school taxes) have outpaced the growth in both inflation and incomes. School taxes have contributed more to the recent rise in local

taxation, growing 9.0 per cent for an average household on an annual basis since 1981, compared to 7.3 per cent annual growth in municipal taxes.

Education Finance

The funding of elementary and secondary education in Ontario is shared between the Province and local school boards. The Provincial share is distributed to school boards through the General Legislative Grants with the school board share being raised from local property taxes. School funding is a significant component of government spending at both levels, as shown in Table 15.

Education Finance in Perspective **Table 15**

(Per Cent)

	1986-87
Transfer Payments to School Boards	
Relative to Total Local Transfers	50.2
Relative to Provincial Budgetary Expenditure	11.0
School Finance in the Local Sector	
School Board Operating Spending Relative to Total Local Operating Spending	45.8
School Taxes Relative to Total Local Property Taxes	50.5

Source: Ontario Ministry of Treasury and Economics.

Appendices

GLOSSARY OF TERMS

Ad Valorem Tax - A percentage-based tax, typically applied to a measure of value such as selling price.

Basic Federal Tax - The level of tax determined by applying the federal tax rate schedule to taxable income. It is not federal tax payable, which is basic tax adjusted by credits, surtaxes or reductions. Ontario's tax rate of 50 per cent is applied to Basic Federal Tax to yield Basic Ontario Income Tax.

Canada Assistance Plan - Federal-provincial cost-sharing mechanism for provincially-administered social assistance and welfare programs.

Capacity Utilization Rate - The actual output of an industry as a percentage of the output it could produce with its existing plant, equipment and work force.

Consolidated Public Sector Funded Debt - Funded debt incurred at all levels of Provincial jursidiction including the Province, Ontario Hydro, municipalities, hospitals, universities and colleges.

Consumer Price Index - A monthly index measuring the retail prices of a fixed basket of goods and services purchased by consumers.

Consumption - The value of spending by consumers on goods and services, measured in current dollar terms (nominal) or adjusted for inflation (real). Consumption accounts for approximately 60 per cent of Gross National Product.

Cost-of-living Adjustment - An adjustment to incomes, wages or other payments to maintain previous purchasing power in the face of changing consumer prices.

Debt to Equity Ratio - The total debt of industrial corporations divided by total shareholder's equity.

Deductions - Reductions in the tax base, usually for specific expenses incurred in order to earn income.

Economies of Scale - Reductions in the average cost of production achieved by increasing the volume of output.

Equalization - Unconditional transfers from the federal government to qualifying provinces with the purpose of ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public service at reasonably comparable levels of taxation.

Established Programs Financing - Unconditional federal payments to the provinces in respect of health care and post-secondary education.

Exemptions - Amounts deductible from income in recognition of specific personal circumstances.

Expenditures - Expenditures on government programs include payments for goods and services, interest on the public debt, salaries, transfer

payments to individuals, municipalities and institutions, subsidies and grants, the acquisition and creation of fixed assets, and the lending, investment and trust administration activities of the Government.

Export - A good or service which is produced in one country or jurisdiction and sold to another.

Final Demand - Purchases of goods and services within the economy, excluding inventory change.

Final Domestic Demand - Purchases of goods and services within the economy, excluding the foreign sector (exports and imports) and inventory change.

Fiscal Arrangements - Institutional vehicles through which the federal government transfers funds to the provinces as part of its commitment to shared-cost programs and interprovincial fiscal capacity equalization.

Fiscal Capacity - Measure of a province's relative ability to raise revenues from available revenue sources.

Fiscal Policy - The use of the Government's spending and taxing power to regulate the aggregate level of economic activity. Expansionary fiscal policy is generally characterized by an increase in discretionary spending or a tax cut.

Fiscal Stabilization - Unconditional cash transfers from the federal government to ensure that no province's tax revenues, measured on the basis of constant tax rates and structure, plus its equalization payments, will be less than they were in the previous year.

Funded Debt - Debt which has a specified term to maturity and is secured by a debt instrument such as a bond.

Gramm-Rudman - A deficit-trimming formula proposed by U.S. Senators Gramm and Rudman which establishes a schedule of annual deficit reduction targets culminating in a balanced federal budget by 1990. If these targets are not met, the President would be required to achieve them through automatic reductions in most categories of federal government expenditures.

Gross Borrowing - Total borrowing including borrowing necessary for retirement purposes.

Gross Domestic Product (GDP) - The value of goods and services produced within the geographic boundaries of an area.

Gross National Product (GNP) - A nation's total output of goods and services, expressed either in current dollar value (nominal) or adjusted for inflation (real). The percentage change in real GNP is the usual measure of the real growth rate of the economy.

Gross Provincial Product (GPP) - The value of goods and services produced within the geographic boundaries of a province; may be measured in current dollar terms (nominal) or adjusted for inflation (real).

Guranteed Debt - Debt for which the Province agrees to meet the costs if the borrowing party can not; primarily, for Ontario Hydro.

Household Formation - Net increases in new households in a period.

Import - A good or service which has been bought from another country or jurisdiction.

Inflation - A continuing rise in the general price level.

Interest Rate - The price paid (charged) by a borrower (lender) of money. Nominal interest rates are those actually paid; real interest rates are nominal rates less the expected rate of inflation (current rates of inflation are generally used as proxies for expected rates).

Interest Service Ratio - Total interest payments taken as a per cent of cash flow of industrial corporations before interest and taxes are deducted.

Inventory - The various raw materials, parts and finished goods plus work-in-progress of a firm, and their total value.

Inventory Accumulation - An increase in the level of inventories held in the economy.

Investment - The value of spending on capital goods such as houses, plant and machinery and equipment; may be measured in current dollar terms (nominal) or adjusted for inflation (real).

Labour Force - The total number of persons, age 15 and over, who are either employed or looking for work.

Marginal Tax Rates - A schedule of rates used to determine the amount of tax payable at various taxable income levels and on each additional dollar of taxable income.

Monetary Policy - The policies of the central bank (Canada - Bank of Canada; U.S. - Federal Reserve Board) that determine the availability and cost of capital (i.e., interest rates) in the economy. Tight (anti-inflationary) monetary policy restricts growth of the money supply, thus raising interest rates and reducing inflation by squeezing demand from the economy.

Net Borrowing - Gross borrowing less borrowing needed for retirements.

Net Cash Requirements (NCR) - The difference between total revenue inflows to and total expenditure outflows from the Consolidated Revenue Fund.

Nominal (GNP, consumption, etc.) - In current dollars; not adjusted for inflation.

Non-Markebtable Securities - Securities which may not be bought or sold in public capital markets.

Non-Public Borrowing - Borrowing from non-public sources of funds, usually pension funds like the Canada Pension Plan.

OECD Countries, Major - Canada, France, Italy, Japan, United Kingdom, United States, West Germany.

Operating Position - The difference between total current revenues and total current expenditures excluding capital expenditures.

Organization for Economic Cooperation and Development (OECD) - An organization of industrial nations, with a permanent staff of officials, established in 1961 to improve trade and investment flows among its members, to help analyze and deal with balance-of-payments and other economic problems and to coordinate foreign-aid policies.

Own-Purpose Debt - Debt issued by Ontario for Provincial use only. This excludes debt issued by Ontario on behalf of Ontario Hydro.

Paid-Up Capital - For most corporations, paid-up capital funds invested in the corporation by its shareholders and other parties, loans or advances made to the corporation, and its cumulative undistributed corporate profit less its investment in other firms.

Participation Rate - The percentage of the population age 15 and over that is in the labour force.

Payroll Tax - An employment income based tax, usually a percentage, which may be levied on the employer, employee or on both.

Per Point Yields - An estimate of direct revenue which would be gained or lost for a first unit change in relation to a specified change in tax rates.

Personal Disposable Income - The income remaining to persons for consumption or saving after deduction of income taxes, other personal direct taxes, CPP premiums, etc.

Personal Income - The income received by persons from all possible sources.

Personal Income Tax Revenue Guarantee - Federal program to ensure that amendments to the federal Income Tax Act will not reduce a province's personal income tax revenues by more than one per cent

Personal Savings Rate - Percentage of personal disposable income that is not spent for current consumption.

Prime Rate - The interest rate charged by chartered banks to their most credit-worthy customers.

Productivity - Output per unit of input (labour, capital, energy) employed.

Protectionism - Advocacy of protective tariffs and other barriers to trade as a means of developing national wealth.

Public Borrowing - Borrowing which is done through public capital markets.

Public Debt Interest - Interest paid by Ontario on total debt incurred for its own purpose.

Real (GNP, consumption, etc.) - Adjusted for inflation, constant dollars.

Real Domestic Product (RDP) -Gross domestic product adjusted for inflation.

Recession - A downturn in the business cycle characterized by weak economic activity and high unemployment. Two consecutive quarters of decline are generally considered to indicate a recession.

Recovery - The upturn of the business cycle characterized by an increase in economic activity.

Representative Tax System - A series of thirty-nine distinct revenue sources used to determine what provinces, collectively, tax.

Revenue - Includes revenue raised through taxation, premiums, fees, licences and permits, payments from the Federal Government under the Fiscal Arrangements and shared-cost programs and income from investments and earnings from advances and investments to public sector bodies.

Seasonal Adjustment (seasonally-adjusted) - A statistical adjustment to take account of seasonal factors, such as weather, so that data more accurately reflect underlying trends.

Specific Rate of Tax - A fixed rate per unit, (e.g. cigarettes will be taxed at the rate of 2.7 cent each).

Surtax - A tax additional to basic Ontario or basic federal tax, usually calculated with reference to basic tax or to taxable income.

Tariff - A tax imposed on imported goods, levied either as a percentage of their value or according to the number of units imported.

Tax Base - The taxable value to which tax rates are applied; (e.g. the taxable portion of income; or the value of goods and services taxed under the retail sales tax).

Tax Collection Agreement - The agreement between each province and the federal government that authorizes the federal government to collect that province's personal income tax. Under the current arrangements the provinces agree to calculate their percentage of basic federal tax, effectively waiving all rights to determine the tax base. Provinces are permitted limited credit and surtax/reduction programs. Some provinces have similar arrangements for corporate income taxes.

Tax Credit - A reduction of certain taxes paid, with the amount of the credit determined by a specified formula. The Ontario Tax Credits, for example, offset property and sales taxes for individuals by reducing Ontario personal income taxes. The level of this credit is a function of both the amount of tax paid and the ability to pay of the individual. As a result, credit benefits fall as income rises - effectively redistributing tax burdens in favour of lowest income individuals.

Tax Effort - Measure of the relative extent that a province actually taxes available revenue sources.

Total Debt - Funded and unfunded debt borrowed for the Province.

Unemployment Rate - The number of persons in the labour market who are unemployed, as a percentage of the labour force. The seasonally unadjusted rate is referred to by Statistics Canada as the "actual" unemployment rate.

Unfunded Debt - Debt which is not secured by a debt instrument such as deposits with the Province of Ontario Savings office.

Unit Labour Cost - A measure of productivity calculated by dividing the total wage bill by the total number of units of a good or service produced.

Value-Added - The value of a firm's output minus the value of the inputs it purchases from other firms.

Ten-Year Review of Selected Financial and Economic Statistics

($ Million)

	1977-78	1978-79	1979-80	1980-81
Financial Transactions				
Revenue	11,782	13,233	15,246	16,470
Expenditure	13,544	14,413	15,830	17,273
Net Cash Requirements	1,762	1,180	584	803
Financial Position				
Funded Debt[1] (excluding Ontario Hydro)	12,364	14,037	15,196	16,215
Provincial Debt Transactions (net)	1,506	1,652	1,132	968
Publicly-Held Debt	1,613	1,718	1,307	1,164
Gross Provincial Product (GPP) at Market Prices[2]	81,970	89,702	100,942	112,066
Personal Income[2]	67,417	74,835	83,480	93,868
Population - June (000s)	8,353	8,440	8,501	8,570
Funded Debt Per Capita (dollars)	1,480	1,663	1,788	1,892
Personal Income Per Capita (dollars)	8,071	8,867	9,820	10,953
Net Cash Requirements as a per cent of GPP	2.1	1.3	0.6	0.7
Funded Debt as a per cent of GPP	15.1	15.6	15.1	14.5
Total Expenditure as a per cent of GPP	16.5	16.1	15.7	15.4
Publicly-Held Debt as a per cent of GPP	2.0	1.9	1.3	1.0
Cumulative Net Borrowing for Ontario Hydro				
U.S.	3,284	4,141	4,506	4,379
C.P.P.	–	–	–	500
Contingent Liabilities (mainly Ontario Hydro)	6,557	7,096	7,904	8,553

[1] Funded Debt includes debentures, notes and Treasury Bills.

[2] Gross Provincial Product and Personal Income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year. Figures for 1984-85 and 1985-86 have been revised.

[3] Ontario Finances, September 30, 1986

Note: All funds are quoted in Canadian dollars.

* Before extraordinary adjustments.

** After extraordinary adjustments.

N/A - not available.

Source: Ontario Ministry of Treasury and Economics.

1981-82	1982-83	1983-84	1984-85	1985-86*	1985-86**	Interim[3] 1986-87
18,886	20,433	22,647	25,196	27,692	30,858	30,353
20,389	22,911	24,936	26,898	29,297	32,968	31,790
1,503	2,478	2,289	1,702	1,605	2,110	1,437
17,592	19,643	22,503	24,593	26,695	26,695	28,026
1,363	2,051	2,860	2,090	2,102	2,102	1,331
1,102	1,056	1,939	1,841	1,520	1,520	1,519
127,408	133,536	148,008	166,879	180,570	180,570	193,390
109,672	121,091	130,333	146,234	158,261	158,261	166,256
8,625	8,716	8,822	8,939	9,059	9,059	9,162
2,040	2,254	2,550	2,751	2,946	2,946	3,078
12,716	13,893	14,773	16,359	17,470	17,470	18,146
1.2	1.9	1.5	1.0	0.9	1.2	0.7
13.8	14.7	15.2	14.7	14.8	14.8	14.5
16.0	17.2	16.8	16.1	16.2	18.2	16.4
0.9	0.8	1.3	1.1	0.8	0.8	0.8
5,573	6,058	6,487	7,206	7,189	7,189	N/A
1,000	1,000	1,000	1,000	1,000	1,000	N/A
9,284	11,122	12,711	14,220	15,963	15,963	N/A